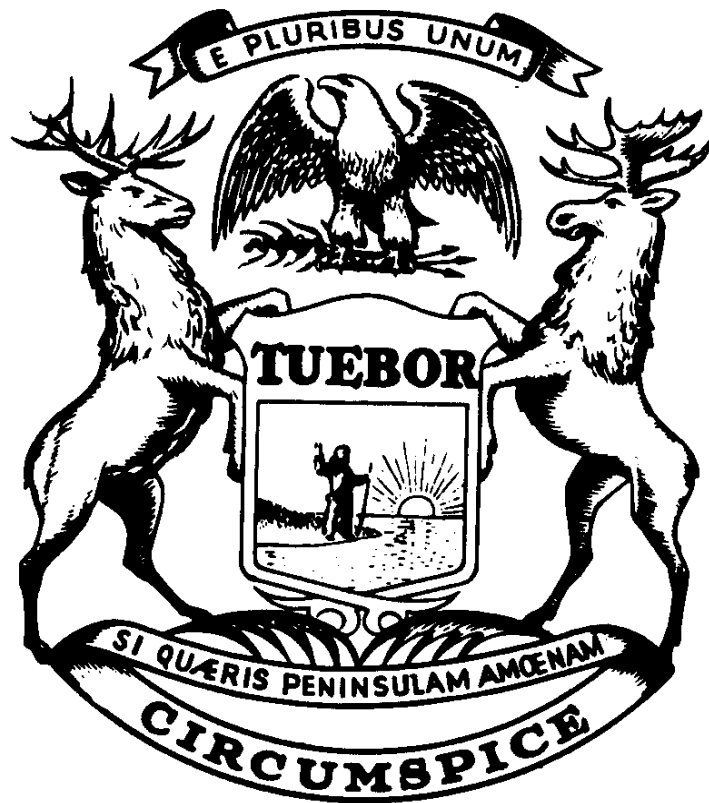


Executive Budget Tax Expenditure Appendix

Fiscal Year 2003



**State of Michigan
John Engler, Governor**

**Executive Budget
Tax Expenditure Appendix
Fiscal Year 2003**



**State of Michigan
Michigan Department of Treasury
John Engler, Governor**

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This report is available on the Internet at <http://www.michigan.gov/treasury>, or copies of this report are available from the Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Douglas B. Roberts
State Treasurer
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TAX EXPENDITURE REPORT PUBLICATION HISTORY

<u>Fiscal Year</u>	<u>Date of Release</u>	<u>Lead Department</u>
1977 – 1978	August 1978	Management and Budget
1979 - 1980	January 1980	Management and Budget
1981 - 1982	March 1981	Management and Budget
1982 - 1983	April 1982	Management and Budget
1983 - 1984	July 1983	Management and Budget
1984 - 1985	July 1984	Management and Budget
1985 - 1986	December 1985	Management and Budget
1986 - 1987	October 1986	Management and Budget
1987 - 1988	November 1988	Management and Budget
1988 - 1989		
1989 - 1990	February 1991	Treasury
1990 - 1991		
1991 - 1992	March 1993	Treasury
1992 - 1993		
1993 - 1994	June 1994	Treasury
1994 - 1995		
1995 - 1996	April 1995	Treasury
1996 - 1997	March 1996	Treasury
1997 - 1998	June 1997	Treasury
1998 - 1999	May 1998	Treasury
1999 - 2000	February 2000	Treasury
2000 - 2001	April 2000	Treasury
2001 - 2002	July 2001	Treasury
2002 - 2003	April 2002	Treasury

TAX EXPENDITURE APPENDIX
EXECUTIVE SUMMARY
FY 2003

The *Tax Expenditure Appendix* is a compilation of the revenue cost of the various tax expenditures in Michigan. Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax expenditure items along with the annual presentation of the *Executive Budget* to the Legislature.

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as exclusions, deductions, exemptions, credits, deferrals, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system.

Total tax expenditures are projected to increase 4.0 percent between Fiscal Year (FY) 2002 and FY 2003, from \$23.7 billion to \$24.6 billion. The tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to decrease 1.6 percent from \$1,466.5 million to \$1,442.4 million. The decline in business privilege tax expenditures was caused in part by Public Act 115 of 1999 which phases out the Single Business Tax (SBT). The SBT rate will fall from 1.9 percent in tax year 2002 to 1.8 percent in tax year 2003. The reduction in the tax rate will reduce the size of most of the corresponding tax expenditures. The increased use of the new Brownfield credit was the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 4.2 percent between FY 2002 and FY 2003, from \$7,918.1 million to \$8,247.7 million.

Individual income tax expenditures are predicted to rise from \$5,662.1 million in FY 2002 to \$5,845.8 million in FY 2003, a 3.2 percent increase. The growth in individual income tax expenditures is reduced by Public Acts 1 through 6 of 1999 and Public Act 40 of 2000 which implement a reduction of the income tax rate. The tax rate will fall to 4.0 percent in 2003 and to 3.9 percent in 2004. The reduction of the income tax rate will reduce the size of most of the corresponding tax expenditures.

Local tax expenditures are predicted to increase 5.5 percent between FY 2002 and FY 2003, rising from \$8,583.0 million to \$9,051.5 million as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 1.9 percent between FY 2002 and FY 2003, from \$50.9 million to \$51.9 million.

CHAPTER 1

INTRODUCTION TO TAX EXPENDITURES

Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax expenditure items along with the annual presentation of the *Executive Budget* to the Legislature:

The governor, with the annual budget message to the legislature, shall report, at a minimum, the tax expenditure items enumerated in this act. The message shall include tax expenditures by budget and also shall contain a separate report on tax expenditures in total which may be printed as an appendix to the budget. The department of treasury shall furnish these items to the governor for inclusion in the report as required by this act.

While the Act does not explicitly define tax expenditures, it does list specific tax expenditures to be included in the report. The *Tax Expenditure Appendix* is a compilation of the revenue cost of the various tax expenditures in the Michigan state and local tax structure. When known, the number of taxpaying units taking advantage of a given tax expenditure is also included.

The *Tax Expenditure Appendix* is divided into eight chapters. Chapter 1 discusses the definition and measurement of tax expenditures. Chapter 2 presents a summary of tax expenditures by type of tax. Chapter 3 lists tax expenditures by budget category. Chapters 4 through 8 examine the five main tax expenditure categories in greater detail: business privilege, consumption, individual income, transportation, and local property. Chapters 4 through 8 discuss changes in tax laws and the reliability of tax expenditure estimates, in addition to providing a brief description of each tax expenditure.

Defining Tax Expenditures

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as exclusions, deductions, exemptions, credits, deferrals, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system.

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that reduce the taxable base from 100 percent of income or wealth. Others recommend a more narrow definition that includes only those tax deductions or credits that are adjustments to the “normal” or appropriate tax structure. The narrow tax expenditure definition reserves the term tax expenditure for items that are true substitutes for direct spending. This report does not make any assumptions regarding the correct definition of the term tax expenditure but rather reports all exemptions, deductions, and credits that are explicitly outlined in statute.

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and SBT credits for small, low-profit firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The college contribution credit, intended to increase contributions to colleges and universities, is an example of a tax expenditure designed to influence taxpayer behavior.

Tax expenditures are so named because they can be viewed as alternatives to direct government appropriation or regulation. In fact, tax expenditures are very similar to direct appropriations in many respects. The main difference is that while appropriations achieve policy goals directly, tax expenditures achieve policy goals indirectly by changing relative prices or reducing costs. For example, the government may help the poor directly by providing food stamps. Alternatively, the government can exempt food from the sales tax, which lowers the cost of food purchases relative to other goods. This will aid poorer residents because they spend a greater proportion of their income on basic needs such as food, which is not taxed.

However, the allocation of government resources through the tax system suffers from some major drawbacks. First, because tax expenditures accomplish their goals indirectly, they provide a less efficient means of targeting benefits than direct expenditures. Often, the targeted group will not receive the benefits, or other groups who were not targeted originally will benefit. Second, policy makers tend to ignore tax expenditures during the budgeting process. Instead, they focus their attention almost strictly upon actual revenue and spending. They usually spend considerably less time considering potential new tax expenditures and revenue that might be collected by eliminating or reducing current tax expenditures. Finally, providing resources via tax expenditures may be more costly than through direct appropriation. Centralized purchasing of certain items such as prescription drugs or diabetic supplies by the state may result in a lower cost than the cost incurred if individuals purchase the items and then apply for a tax credit. On the other hand, the cost to governments of administering most tax expenditures is usually a fraction of the cost of administering direct spending programs.

Annual review of tax expenditures would encourage policy makers to rank all policy goals before deciding which should be funded, by how much, and by what means. Ideally, this review process should use three criteria in order to evaluate which tax expenditures are retained. First, the effectiveness of the specific tax expenditure should be evaluated. Does it accomplish its objective at the lowest cost without unintended outcomes? Second, the tax expenditure should be more effective relative to alternatives such as direct spending or regulation. Finally, the relative importance of the tax expenditure and its goals should be examined. This report does not attempt to evaluate each tax expenditure according to these criteria. It is designed to aid policy makers in evaluating the efficiency, effectiveness, and relative importance of each tax expenditure.

Technical Issues

State Versus Federal Tax Expenditures

The starting point in calculating Michigan taxable income is the federal Internal Revenue Code definition of adjusted gross income (AGI). As a result, the exclusions and deductions used in the calculation of federal AGI also reduce state income tax liability. Exclusions or deductions from federal AGI that Michigan does not disallow specifically are classified as federal tax expenditures. This classification does not mean that federal tax expenditures are outside the control of state government. Michigan could require that specific federal tax expenditure items be added back to AGI in calculating Michigan taxable income.

State Versus Local Tax Expenditures

This report also distinguishes between state tax expenditures (associated with taxes collected by the state government) and local tax expenditures (associated with taxes collected by local governments). For the purposes of this report, the distinction between state and local government tax expenditures rests on which level of government collects the tax, not the level of government affected by the tax expenditure. In fact, some state tax expenditures have implications for local government budgets, while some local government tax expenditures have ramifications for the state government budget. For example, property tax exemptions granted for industrial or commercial development are classified as local tax expenditures. These local property tax exemptions also have state budget implications because they reduce state education tax revenue and reduce taxable value per pupil and thus increase state aid payments to local school districts through the state education aid formula.

Income Tax Personal Exemption

For tax year 2001, individual Michigan taxpayers could claim a \$2,900 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden and amounts to a subsidy for certain households.

Industrial Processing Exemption From Sales Tax

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the

exclusion of nonretail sales from a pure retail sales tax base is not a tax expenditure. However, Michigan's sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report treats the business purchase exemption as a tax expenditure to the state sales tax.

Measuring Tax Expenditures

The estimates in this report for FY 2002 and FY 2003 are based on tax year 2000 income tax data (returns processed in the spring of 2001), 2000 property and sales tax data, and tax year 1997-98 SBT data. Unless otherwise noted, estimates of the cost (in terms of foregone revenue) of exemptions, deductions, reductions, and credits are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

The tax expenditure estimates *do not* necessarily reflect the amount of actual revenue that would be gained through the repeal of specific provisions. This is attributable to three economic assumptions (listed below) which have been made to ease the task of estimation. (These assumptions are consistent with those made at the federal level and used by other states.)

Assumption 1. The elimination of a tax expenditure does not alter economic behavior.

In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the price consumers pay for food would increase and food purchases would decline. In this manner, the elimination of a tax expenditure is similar to a price increase. This drop in food purchases would reduce sales tax revenues, offsetting some of the original revenue gain from eliminating the exemption.

Assumption 2. Each tax expenditure is independent.

The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or removing one SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting the original revenue impact.

Assumption 3. The elimination of tax expenditures does not affect overall macroeconomic conditions.

In principle, repeal or enactment of major tax expenditure provisions would have some impact on the economy. For example, imposing the sales tax on services or repealing the personal income tax exemption may significantly reduce income levels and affect taxpayers' spending which would affect the macro economy. However, marginal

changes in particular provisions are unlikely to have a significant impact on overall income levels and rates of economic growth.

In essence, the reported estimate for each tax expenditure is an isolated estimate. That is, estimates assume implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would necessarily fall short of the estimates.

Cautionary Notes and the Reliability of Estimates

In many instances, this report aggregates individual tax expenditure estimates. However, due to the simplifying assumptions that have been made, aggregating various tax expenditure estimates in order to measure the cost of changing all of them simultaneously will not be accurate. The estimated revenue gain from simultaneously eliminating two tax expenditures will be less than the sum of the cost of the two measured separately. Therefore, the reader is cautioned regarding interactions between tax expenditures.

The reader is also cautioned about comparing tax expenditure estimates across years. Substantial federal, state, and local changes in tax laws occur each year that affect the number, type, and magnitude of tax expenditures. In addition, measurement techniques may also vary from year to year, depending on available data.

Tax expenditure estimates that appear in this report have different levels of reliability depending on the accuracy of the data and the estimation procedure employed. Chapters 4 through 8 denote the reliability of tax expenditure estimates included in the respective chapters. High reliability implies that the estimate should be relatively accurate. If the estimate does not approximate closely the actual value of the tax expenditure, it is most likely incorrect by a relatively small margin. Conversely, low reliability implies that the actual value could be much greater or smaller and that the range of possible values is large. Reliability indicators are as follows:

1. High reliability level.

This category is reserved for estimates that were derived using actual recent tax return data. The higher education tax expenditure, which is based on recent income tax return data, is an example of an estimate that is accurate and highly reliable.

2. Average reliability level.

Tax expenditure estimates in this category were also based on tax return data. However, specific economic assumptions were necessary to derive these estimates because less recent data or sample data were used. The personal exemption from city income taxes is an example of an estimate with average reliability. Estimates were based on a recent survey of city treasurers. Some city estimates were carried forward from last year, while

other estimates were based on rounded figures. While this will affect the precision of the total estimate, the impact should be relatively small.

3. Low reliability level.

This category is reserved for estimates that are imprecise. Estimates in this category were based on highly aggregated (national) data, required restrictive assumptions, or used poor non-tax data sources. For example, federal income tax expenditure estimates have a low degree of reliability because they were based on national tax expenditure data apportioned to Michigan.

Why Report Tax Expenditures?

Some economists argue that a regular periodic evaluation of tax expenditures should become common practice. Unlike fixed appropriations, tax expenditures are open-ended entitlements: if people or firms qualify for an exemption, they receive it. In periods of recession, tax expenditures are rarely re-examined as budget cuts are typically focused around direct spending. When the economy improves, both direct spending and tax expenditures tend to increase as legislators can afford to be more generous.

According to the Advisory Commission on Intergovernmental Relations (ACIR), there are at least three reasons why tax expenditures should be reviewed periodically:

1. Tax Equity.

Reviewing tax expenditures helps to ensure both vertical and horizontal equity in the tax structure. Horizontal equity refers to taxpayers in similar income groups, while vertical equity refers to taxpayers in different income groups. If a voluntary tax system is to work, people must regard that system as equitable.

2. Fiscal Discipline.

Adopting regular tax expenditure reporting gives policy makers more information regarding available resources and how these resources are being used. All state programs, whether they are funded through direct or indirect spending, should work in unison so that particular policy objectives can be attained.

3. Political Accountability.

By mandating a periodic review of the tax code, state lawmakers would foster a public discussion of how the tax system should be designed. In addition, lawmakers would indicate publicly whether they support or oppose certain tax expenditures, much like the appropriations process.

The Michigan Legislature has recognized these potential problems and regularly places sunset dates on new tax expenditures, and often requires a report on the activity related to the tax break. In addition, the annual publication of this report provides an itemization of each tax expenditure along with its cost.

CHAPTER 2

SUMMARY OF TAX EXPENDITURES

Chapter 2 lists tax expenditures by tax category. Categories include business privilege, consumption, individual income, transportation, local property, and other local tax expenditures. Chapter 2 also includes aggregated tax expenditures. As noted earlier, aggregated measures of tax expenditures should be viewed with caution. The independence assumption underlying individual tax expenditure estimates is unrealistic and, if relaxed, aggregated figures would likely decrease.

Total tax expenditures are projected to increase from \$23.681 billion in FY 2002 to \$24.639 billion in FY 2003, a 4.0 percent increase (see Exhibit 1). Much of the increase in total tax expenditures is due to growth in consumption, local property tax, and individual income expenditures.

Exhibit 1
Total Tax Expenditures, FY 2002 and FY 2003

<u>Tax Category</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>	<u>Change</u>
Business Privilege	\$1,466,490	\$1,442,389	-\$24,101
Consumption	7,918,135	8,247,700	329,565
Individual Income	5,662,131	5,845,782	183,651
Property	8,381,779	8,848,140	466,361
Other Local (City Income Tax)	201,200	203,400	2,200
Transportation	<u>50,939</u>	<u>51,907</u>	<u>968</u>
TOTAL	\$23,680,674	\$24,639,318	\$958,644

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2003, consumption tax expenditures comprised 33.5 percent of total tax expenditures, while income tax expenditures comprised 23.7 percent and property and other local taxes comprised 36.7 percent. Not surprisingly, taxes that generate significant revenue are also associated with large tax expenditures (see Exhibit 3). Most notable are consumption tax expenditures resulting from food, services, and industrial processing exemptions.

Exhibit 2
FY 2003 Distribution of Tax Expenditures

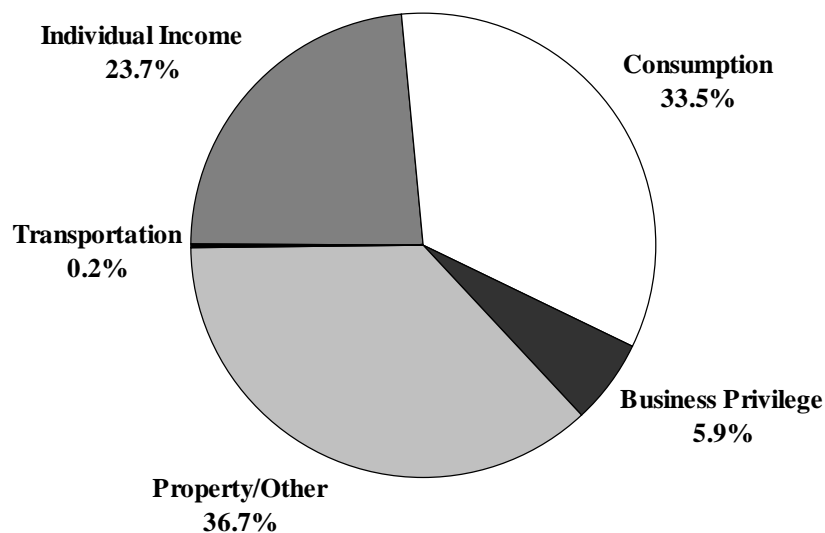


Exhibit 3
FY 2003 Tax Expenditures and Projected Revenue
(millions of dollars)

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$6.1	\$45.0	13.5%
Single Business	1,435.3	1,869.7	76.8%
Consumption			
Total Alcohol	0.1	151.7	0.1%
Cigarette and Tobacco	12.3	572.1	2.2%
Sales and Use	8,235.3	8,260.0	99.7%
Individual Income Tax	3,911.6	6,807.4	57.5%
Transportation			
Aviation Fuel	5.1	6.7	76.1%
Gasoline	27.1	957.0	2.8%
Diesel Fuel	5.0	139.0	3.6%
Motor Vehicle Registration	14.0	846.0	1.7%
City Income Tax	<u>203.4</u>	<u>602.5</u>	<u>33.8%</u>
TOTAL	\$13,855.3	\$20,257.1	68.4%

*From Consensus Revenue Estimating Conference, January 2002.

Exhibits 4 through 8 provide a breakdown of individual tax expenditures across the five tax categories. An asterisk denotes a new tax expenditure or one that has been modified by legislation since the publication of the previous *Tax Expenditure Appendix*. For more detailed information regarding these changes, consult the specific chapter relating to the tax expenditure.

Exhibit 4
Business Privilege Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2002</u> <u>(000)</u>	<u>FY 2003</u> <u>(000)</u>
Insurance Company Retaliatory Supplemental Workers' Compensation	\$1,009	\$959
Oil and Gas Severance Tax		
Marginal Wells	2,165	2,230
Public Land	3,509	3,860
SUBTOTAL	\$5,674	\$6,090
Single Business Tax Expenditures		
Agricultural Producers	\$12,664	\$12,917
Apprenticeship Tax Credit	91	93
Brownfield Zone Credit*	9,990	27,554
Business Loss Deduction	96,539	89,198
Community Foundation Credit	784	781
Compensation Exemption	134,400	132,344
Corporate Farm Property Tax Credit	1,056	1,077
Enterprise Zone Credit	1,280	1,238
Excess Compensation Reduction	203,200	187,749
Floor Plan Interest Deduction	1,500	1,500
Government Utilities Exemption	8,194	8,398
Gross Receipts Reduction	144,633	133,635
Gross Receipts Threshold	54,100	55,723
Higher Education Contributions Credit	2,098	2,029
Historic Preservation Credits	200	200
Homeless/Food Bank Credit	369	357
Insurer's Exemption From Gross Receipts	1,100	1,122
Insurer's Facility Assessment Credit	52,236	53,804
Investment Tax Credit	406,723	396,518
Minority Venture Capital Credit	0	0
Michigan Economic Growth Authority	34,000	45,520
Nonprofit Organizations	81,344	75,933
Renaissance Zones	3,696	3,770
Small Business Credit	117,070	114,868
Statutory Exemption	21,355	19,731
Supplemental Workers' Compensation	6,199	5,889
Unincorporated Business Credit	58,136	56,768
Utility Property Tax Credit	6,850	6,624
SUBTOTAL	\$1,459,807	\$1,435,340
TOTAL	\$1,466,490	\$1,442,389

* Brownfield tax expenditure was expanded.

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Alcoholic Beverages Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
SUBTOTAL	\$100	\$100
Cigarette Tax		
Licensee Expenses	\$6,695	\$6,555
Sales on Military Bases and Reservations	5,899	5,775
SUBTOTAL	\$12,594	\$12,330
Sales and Use Tax Expenditures		
Air and Water Pollution	\$33,000	\$35,000
Aircraft Parts	8,036	8,355
Bad Debts	58,000	60,297
Cargo Aircraft	30,000	30,000
Church Construction	3,000	3,100
Church Cars	4,168	4,333
Collection Fee	15,606	16,224
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Damaged Beer	n.a.	n.a.
Delayed Payment on Construction Materials	2,898	3,013
Donated Property	n.a.	n.a.
Driver Training	578	590
Employee Meals	7,000	7,000
Enterprise Zone Credit	n.a.	n.a.
Food	834,587	867,635
Food for Students	46,004	46,924
Government or Red Cross	156,741	162,948
Gratuity and Tips	43,655	45,384
Horticultural and Agricultural Products	130,275	130,275
Industrial Processing	739,717	769,008

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Inmate Purchases	\$554	\$570
International Telecommunications	42,013	43,677
Interstate Trucks and Trailers	37,000	38,465
Investment Coins	300	300
Isolated Sales	n.a.	n.a.
Military PX Sales	1,537	1,598
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals and Films	92,219	95,870
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,000	10,396
Nonprofit Organizations	173,674	180,551
Nonprofits Sales under \$5,000	n.a.	n.a.
Nonresident Merchandise Transfer	n.a.	n.a.
Nonresident Property	n.a.	n.a.
Ophthalmic and Orthopedic Products	47,677	49,565
Prescription Drugs	371,362	414,811
Radio and TV	4,400	4,400
Rail Rolling Stock	1,594	1,657
Residential Utilities	103,000	107,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	81,578	81,578
Services (Including Nonprofits)	4,623,235	4,806,304
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	16,564	16,895
Textbooks Sold by Schools	n.a.	n.a.
Vehicles and Aircraft Transfers	120,669	125,447
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	21,700	22,500
SUBTOTAL	\$7,905,441	\$8,235,270
 TOTAL	 \$7,918,135	 \$8,247,700

* Denotes a new tax expenditure or an existing tax expenditure that was expanded or modified.

Exhibit 6
Individual Income Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
State Income Tax		
Adjustments to Income	\$2,001,775	\$2,074,345
Adoption Credit *	1,100	600
Child Deduction	54,821	54,027
City Income Tax Credit	39,597	40,191
College Savings Accounts	4,924	5,961
Community Foundation Credit	3,006	3,307
Dependent Exemption	25,635	26,350
Farmland Credit	24,427	24,183
Higher Education/Public Contributions Credit	26,499	27,824
Historic Preservation Credit	249	299
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	500	500
Homeless/Food Bank Credit	16,256	17,881
Homestead Property Tax Credit	518,961	539,659
Income Tax Paid to Other State Credit	34,290	36,004
Military Pay and Pensions	19,934	20,010
Personal Exemption	971,026	989,126
Prescription Drug Credit *	2,000	0
Renaissance Zones	300	300
Special Exemption	38,353	39,294
Tuition Credit	11,700	11,700
TOTAL STATE	\$3,795,353	\$3,911,561
Federal Adjustments		
Accelerated Depreciation	\$47,317	\$47,307
Employer Contributions to Insurance	563,020	593,854
Employer Pension Plans	582,617	600,559
Federal Adjustments to Income	\$8,356	\$11,443
Fellowships and Scholarships	6,277	6,179
Gain on Sale of Primary Residence	114,560	115,135
Income Maintenance Benefits	3,471	3,474

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Federal Adjustments (continued)		
Individual Retirement Accounts	\$128,471	\$130,805
Interest on Life Insurance Savings	100,023	106,292
Medical Savings Account	143	93
Railroad Retirement Benefits	1,634	1,595
Social Security Benefits	220,356	225,005
Student Loan Deduction	2,111	2,060
Veterans' Benefits	36,052	37,033
Workers' Compensation	52,370	53,387
TOTAL FEDERAL	\$1,866,778	\$1,934,221
TOTAL STATE AND FEDERAL	\$5,662,131	\$5,845,782

* Denotes a new tax expenditure or an existing tax expenditure that was expanded or modified.

Exhibit 7
Transportation Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$246	\$251
Interstate Flight Refund	4,750	4,845
Marine Vessel Exemption	674	687
SUBTOTAL	\$5,670	\$5,783
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$4,866	\$4,964
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,772	15,068
Fuel for Off-Road Use	407	416
Municipal Franchise Vehicles	549	560
Public Vehicles	10,852	11,069
SUBTOTAL	\$31,446	\$32,077
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$136	\$149
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	13,673	13,885
SUBTOTAL	\$13,809	\$14,034
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$14	\$13
TOTAL	\$50,939	\$51,907

Exhibit 8
Local Property and Other Local Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$500	\$1,700
Air and Water Pollution Control	110,000	120,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	729	650
Enterprise Zone Credit	1,000	1,100
Fairground Property	n.a.	n.a.
Homestead Exemption	2,370,000	2,500,000
Homestead Exemption for Farm Property	130,000	130,000
Industrial Facilities Development	310,000	330,000
Mobile Homes	42,100	43,200
Neighborhood Enterprise Zones*	2,600	3,100
Poverty Exemption	2,200	2,300
Railroad Right-of-Way	15,100	15,100
Renaissance Zones	18,300	21,900
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	2,968,000	3,028,000
Tax Increment Financing	260,000	270,000
Taxable Value Cap	2,150,000	2,380,000
Technology Park	200	40
Water Softeners	1,050	1,050
SUBTOTAL	\$8,381,779	\$8,848,140
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$176,400	\$178,300
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	24,800	25,100
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	\$201,200	\$203,400
TOTAL	\$8,582,979	\$9,051,540

* Denotes a new tax expenditure or an existing tax expenditure that was expanded or modified.

CHAPTER 3

TAX EXPENDITURE BUDGET

Chapter 3 illustrates the concept of a tax expenditure budget. This presentation organizes tax expenditures by the spending category that benefits from the expenditure rather than by the revenue source that finances it. Tax expenditures are grouped in categories similar to direct expenditures in the *Executive Budget* such as commerce, education, transportation, and natural resources. This allows for a comparison of funding between direct appropriations and tax expenditures for selected spending categories.

By a wide margin, the commerce and income distribution budget categories tend to receive most funding from tax expenditures (see Exhibit 9). Relative to direct spending, tax expenditures appear to be a preferred method to fund these objectives. In contrast, transportation and higher education are funded much more intensively via direct appropriations (see Exhibit 10).

Exhibits 11 and 12 provide an itemized breakdown of tax expenditures by spending category. These exhibits are a simple reorganization of the summary tables provided in Chapter 2; only the groupings are different.

Exhibit 9
Tax Expenditure Budget, FY 2003

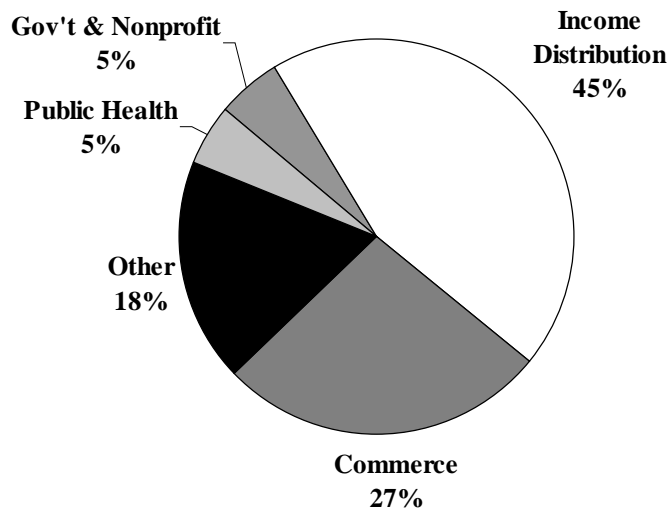


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2002

Spending Category	Tax Expenditure (000)	Direct Expenditure (000)	Total (000)	Percent Tax Expenditure
Agriculture	\$168,422	\$81,785	\$250,207	67.3%
Commerce (CIS)	5,256,545	319,642	5,576,187	94.3%
Higher Education	79,186	1,942,942	2,022,128	3.9%
Income Distribution (FIA)	6,663,517	1,233,212	7,896,729	84.4%
Military Affairs	65,058	65,084	130,142	50.0%
Natural Resources	33,000	223,200	256,200	12.9%
Public (Community) Health	1,126,923	2,996,826	4,123,749	27.3%
Transportation	43,290	2,110,129	2,153,419	2.0%
TOTAL	\$13,435,941	\$8,972,819	\$22,408,760	60.0%

Note: FY 2002 appropriation figures from *FY 2001-2002 Appropriations Report*, Senate Fiscal Agency.

Note that Exhibit 10: (1) compares *own* state resources to tax expenditures (i.e., it ignores federal grants), and (2) *does not* include local tax expenditures and local direct expenditures. For example, the income distribution budget category does not include tax expenditures associated with the city income tax. Tax expenditures associated with the government and nonprofit budget category are also not included, because there is no comparable direct expenditure category.

Exhibit 11
Fiscal Summary, Tax Expenditure Budget

<u>Budget Category</u>	<u>FY 2002 (000)</u>	<u>FY 2003 (000)</u>
Agriculture	\$492,422	\$514,352
Commerce	6,407,795	6,623,839
Education	3,668,054	3,769,428
Government and Nonprofit Organizations	1,257,186	1,284,478
Income Distribution	10,476,217	10,983,372
Military Affairs	65,058	66,065
Natural Resources	143,729	155,650
Public Health	1,126,923	1,198,247
Transportation	<u>43,290</u>	<u>43,887</u>
TOTAL	\$23,680,674	\$24,639,318

Note: See Exhibit 12 for a detailed list of tax expenditures.

Exhibit 12
Tax Expenditure Budget Detail

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$500	\$1,700
Homestead Exemption for Farm Property	130,000	130,000
Taxable Value Cap	193,500	214,200
Income Tax		
Farmland Development Credit (PA 116)	24,427	24,183
Sales and Use Taxes		
Horticultural or Agricultural Products	130,275	130,275
Single Business Tax		
Agricultural Producers	12,664	12,917
Corporate Farm Property Tax Credit	1,056	1,077
TOTAL	\$492,422	\$514,352
Commerce		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
Cigarette Tax		
Licensee Expenses	6,695	6,555
Income Tax		
Accelerated Depreciation	47,317	47,307
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	1,009	959
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	2,165	2,230

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Commerce (Continued)		
Property Tax		
Enterprise Zone	\$1,000	\$1,100
Industrial Facilities Development	310,000	330,000
Mobile Homes	42,100	43,200
Neighborhood Enterprise Zones	2,600	3,100
Renaissance Zones	18,300	21,900
Tax Increment Financing	260,000	270,000
Taxable Value Cap	516,000	571,200
Technology Park	200	40
Water Softeners	1,050	1,050
Sales and Use Taxes		
Aircraft Parts	8,036	8,355
Bad Debts	58,000	60,297
Cargo Aircraft	30,000	30,000
Collection Fee	15,606	16,224
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Delayed Payment on Construction Materials	2,898	3,013
Employee Meals	7,000	7,000
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	43,655	45,384
Industrial Processing	739,717	769,008
International Telecommunications	42,013	43,677
Interstate Trucks and Trailers	37,000	38,465
Investment Coins	300	300
Newspapers, Periodicals, and Films	92,219	95,870
Nonresident Merchandise Transfer	n.a.	n.a.
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Business	n.a.	n.a.
Sale of Water	81,578	81,578
Services (except education, health, and nonprofits)	2,481,497	2,579,730
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	16,564	16,895
Vehicle and Aircraft Transfers	120,669	125,447

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Commerce (Continued)		
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	\$21,700	\$22,500
Single Business Tax		
Brownfield Zone Credit	9,990	27,554
Business Loss Deduction	96,539	89,198
Compensation Exemption	134,400	132,344
Enterprise Zone Credit	1,280	1,238
Excess Compensation Reduction	203,200	187,749
Floor Plan Internal Expense	1,500	1,500
Gross Receipts Reduction	144,633	133,635
Gross Receipts Threshold	54,100	55,723
Insurer's Exemption From Gross Receipts	1,100	1,122
Insurer's Facility Assessment Credit	52,236	53,804
Investment Tax Credit	406,723	396,518
MEGA	34,000	45,520
Minority Venture Capital Credit	0	0
Renaissance Zone Credit	3,696	3,770
Small Business Low-Profit Credit	117,070	114,868
Statutory Exemption	21,355	19,731
Supplemental Workers' Compensation Credit	6,199	5,889
Unincorporated Business Credit	58,136	56,768
Utility Property Tax Credit	6,850	6,624
TOTAL	\$6,407,795	\$6,623,839
Education		
Income Tax		
College Savings Account	\$4,924	\$5,961
Fellowships and Scholarships	6,277	6,179
Higher Education/Public Contribution Credit	26,499	27,824
Tuition Credit	11,700	11,700
Property Tax		
Exempt Public Education Property	1,178,000	1,202,000
Sales Tax		
Services	27,597	28,692
Textbooks Sold by Schools	n.a.	n.a.

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Education (Continued)		
Single Business Tax		
Apprenticeship Tax Credit	\$91	\$93
Higher Education and Library Credit	2,098	2,029
TOTAL	\$1,257,186	\$1,284,478
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$246	\$251
Income Tax		
Community Foundation	3,006	3,307
Historic Preservation Credit	249	299
Motor Fuel Taxes		
Public Vehicles	10,852	11,069
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	13,673	13,885
Oil and Gas Severance Tax		
Public Land	3,509	3,860
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,790,000	1,826,000
Sales and Use Taxes		
Church Cars	4,168	4,333
Church Construction	3,000	3,100
Donated Property	n.a.	n.a.
Government or Red Cross	156,741	162,948
Nonprofit Organizations	173,674	180,551
Nonprofit Sales	n.a.	n.a.
Services	1,418,400	1,474,500
Single Business Tax		
Community Foundation Credit	784	781
Government Utilities	8,194	8,398
Historic Preservation Credit	200	200
Nonprofit Organizations	81,344	75,933
Watercraft Registration Fee		
Publicly Owned Watercraft	14	13
TOTAL	\$3,668,054	\$3,769,428

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	\$176,400	\$178,300
Personal Exemption	24,800	25,100
General Property Tax		
Homestead Exemption	2,370,000	2,500,000
Poverty Exemption	2,200	2,300
Taxable Value Cap	1,440,500	1,594,600
Income Tax		
Adjustments to Income (except military)	2,001,775	2,074,345
Adjustments to Income (federal)	8,356	11,443
Adoption Credit	1,100	600
Child Deduction	54,821	54,027
City Income Tax Credit	39,597	40,191
Dependent Exemption	25,635	26,350
Employer Contributions to Health and Life Insurance	563,020	593,854
Employer Pension Plans	582,617	600,559
Gain on Sale of Primary Residence	114,560	115,135
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	500	500
Homeless Credit	16,256	17,881
Homestead Property Tax Credit (excluding veterans)	517,461	538,159
Income Maintenance Benefits	3,471	3,474
Individual Retirement Account	128,471	130,805
Interest on Life Insurance Savings	100,023	106,292
Other State Tax Credit	34,290	36,004
Personal Exemption	971,026	989,126
Railroad Retirement Benefits	1,634	1,595
Social Security Benefits	220,356	225,005
Special Exemption	38,353	39,294
Student Loan Deduction	2,111	2,060
Workers' Compensation	52,370	53,387

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Income Distribution (Continued)		
Sales and Use Taxes		
Food	\$834,587	\$867,635
Food for Students	46,004	46,924
Inmate Purchases	554	570
Residential Utilities	103,000	107,500
Single Business Tax		
Homeless Shelter Food Bank Credit	369	357
TOTAL	\$10,476,217	\$10,983,372
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	\$5,899	\$5,775
Income Tax		
Military Pay and Pension	19,934	20,010
Veterans' Benefits	36,052	37,033
Veterans' Property Tax Credit	1,500	1,500
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	136	149
Sales and Use Taxes		
Military Post-Exchange Sales	1,537	1,598
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
TOTAL	\$65,058	\$66,065
Natural Resources		
Property Tax		
Air and Water Pollution	\$110,000	\$120,000
Energy Conservation Devices	729	650
Sales and Use Taxes		
Air and Water Pollution	33,000	35,000
TOTAL	\$143,729	\$155,650

Tax/Tax Expenditure	FY 2002 (000)	FY 2003 (000)
Public Health		
Income Tax		
Medical Care Savings - Federal	\$143	\$93
Prescription Drug Credit	2,000	0
Sales and Use Taxes		
Medical Services	695,741	723,382
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,000	10,396
Ophthalmic and Orthopedic Products	47,677	49,565
Prescription Drugs	371,362	414,811
TOTAL	\$1,126,923	\$1,198,247
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	\$4,750	\$4,845
Motor Fuel Taxes		
Diesel Fuel for Jobsites	4,866	4,964
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,772	15,068
Fuel for Off-Road Use	407	416
Marine Vessel Fuel	674	687
Municipal Franchise Vehicles	549	560
Sales and Use Taxes		
Driver Training	578	590
Rail Rolling Stock	1,594	1,657
Utility Property Tax		
Railroad Right-of-Way	15,100	15,100
TOTAL	\$43,290	\$43,887

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and SBT expenditures. Business privilege tax expenditures are projected to decrease 1.6 percent from \$1,466.5 million in FY 2002 to \$1,442.4 million in FY 2003. The continuing reduction of the SBT rate has slowed the growth in the larger tax expenditures. The SBT rate will fall from 1.9 percent in tax year 2002 to 1.8 percent in tax year 2003. Data from FY 1998 were used to derive SBT tax expenditure estimates. Other business privilege tax expenditure estimates were based on 2000 data.

- Estimate Reliability**
- (1) Community Foundation Credit
Higher Education Credit
Homeless/Food Bank Credit
Oil and Gas Severance Tax
Supplemental Worker's Compensation Credit
Unincorporated Credit
Utility Property Tax Credit
 - (2) Business Loss Deduction
Excess Compensation Reduction
Gross Receipts Reduction
Insurers' Facility Assessment Credit
Small Business Credit/Alternate Tax Rate
Statutory Exemption
 - (3) Other SBT Tax Expenditures

Most business privilege tax expenditure estimates are fairly accurate. SBT expenditure estimates were based on the entire population of 1997-98 SBT returns. These returns represent the most recent 12-month period where at least 99 percent of returns have been cleared. Because the SBT base is relatively stable, it is possible to adjust these data in a reliable fashion in order to derive estimates for FY 2002 and FY 2003. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions which are much more difficult to estimate. Insurance company retaliatory and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

Business Privilege Tax Expenditure Changes

Public Act 224 of 2001 exempts from SBT the portion of the tax base attributable to a multiple employer welfare arrangement that provides only dental benefits. The tax base exemption applies to tax years beginning after December 31, 2000.

Public Acts 229 and 230 of 2001 revised the definition of sales and altered the treatment of franchise royalties received by franchisors and paid by franchisees. Act 229 excludes from the definition of sales royalties paid to a franchisor as consideration for the use outside of this state of trade names, trademarks, or similar intangible property not deducted from the tax base. Act 230 eliminates, after December 31, 2000, the requirement that franchisees add back to their tax base franchise royalty payments, and the requirement that franchisors exclude from their tax base franchise royalties received.

Public Act 249 provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process.

Public Act 278 revised the definition of the tax base of a foreign person to exempt foreign-based international airlines from paying the SBT for 2000. Without this legislation, these companies would have been exempt from paying the SBT for all years before 2000 and for years after 2000 but not for 2000 itself.

Insurance Company Retaliatory Tax

Effective August 3, 1987, the Michigan premiums tax on insurers was replaced with a gross receipts tax. The tax is levied on all insurers under the SBT and the rate is 1.3 percent (and reduced proportionate to the SBT rate cut). Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's home state. Foreign insurers pay the SBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$224.0 million for FY 2003; revenue goes to the State General Fund.

FY 2003 Estimate

Supplemental Workers Compensation Credit

\$959,000

Provides a credit to out-of-state insurers for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Other firms claim an SBT credit. Previously, firms were reimbursed for these costs through the appropriations process.

Oil and Gas Severance Tax

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production and 4.0 percent for stripper wells and marginal properties. The estimated yield is \$45.0 million for FY 2003; revenue goes to the State General Fund.

FY 2003 Estimate**Marginal Wells**

\$2,230,000

Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.

Public Land

\$3,860,000

Exempts oil and gas severed from publicly-owned lands from taxation.

SBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type value-added tax that has numerous adjustments to provide tax relief to businesses. A value-added tax is a levy on the value firms add to goods and services purchased from other firms. The SBT base is equal to the sum of business income, labor compensation, net interest, and depreciation. Deductions and credits are then applied to determine final tax liability. The estimated yield for FY 2003 is \$1,869.7 million; revenue goes to the State General Fund.

SBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the gross receipts reduction, and the excess compensation reduction. Because estimates were derived assuming no interaction between tax expenditures, most estimates should not be interpreted as the tax revenue that would be realized if a particular exemption were eliminated. Exhibit 13 presents a breakdown for certain SBT tax expenditures based on calendar year returns for 1998 and returns for fiscal years ending in December 1997 through November 1998.

FY 2003 Estimate**Agricultural Producers**

\$12,917,000

Exempts agricultural production from the SBT.

Apprenticeship Tax Credit

\$93,000

Provides an SBT credit equal to 50 percent of the salary, wage and fringe benefits, plus 100 percent of classroom and related expenses for apprentices employed by businesses. The credit may not exceed \$2,000 per apprentice per year.

Brownfield Zone Credit

\$27,554,000

Permits firms to claim an SBT credit equal to 10 percent of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in brownfield development zones. These credits were expanded by Public Acts 143 and 144 of 2000.

FY 2003 Estimate

Business Loss Deduction	\$89,198,000
Permits a business that had a negative adjusted tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted tax bases may be carried forward for up to 10 years.	
Community Foundation Credit	\$781,000
Provides a 50 percent credit for contributions made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less.	
Compensation Exemption	\$132,344,000
Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base.	
Corporate Farm Property Tax Credit	\$1,077,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.	
Enterprise Zone Credit	\$1,238,000
Provides a credit for tax liability attributable to qualified business activity in an enterprise zone established before 1994. The city of Benton Harbor is the only enterprise zone under the Enterprise Zone Act (Public Act 224 of 1985) established before 1994. The Benton Harbor Enterprise Zone program ceased to enlist new businesses after December 31, 1996.	
Excess Compensation Reduction	\$187,749,000
Reduces the adjusted tax base by the percentage that labor compensation exceeds 63 percent of the total tax base, providing relief for labor-intensive businesses. In FY 1998, 42,779 firms used this provision. (See Exhibit 13.)	
Floor Plan Interest Deduction	\$1,500,000
Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining inventory of cars.	

Exhibit 13
Single Business Tax Expenditures by Liability Class, 1997-98*

Tax Liability Class	Capital Acquisition Deduction		Excess Compensation Reduction		Gross Receipts Reduction	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
\$0 - \$99	20,693	\$211,529,241	4,856	\$7,134,617	301	\$1,569,498
\$100 - \$499	5,049	2,459,656	3,542	1,380,144	185	479,512
\$500 - \$999	5,665	2,294,805	2,551	1,738,763	212	503,679
\$1,000 - \$4,999	21,025	11,803,387	10,347	14,578,376	6,376	17,467,040
\$5,000 - \$9,999	9,038	5,802,725	6,676	17,116,330	3,772	18,175,112
\$10,000 - \$49,999	14,623	27,596,488	11,206	75,138,999	3,824	55,308,535
\$50,000 - \$99,999	2,825	15,356,380	1,918	36,454,744	604	28,035,731
\$100,000 - \$499,999	2,394	20,642,181	1,463	64,699,117	498	67,978,452
\$500,000 - \$999,999	246	7,907,113	139	20,628,592	52	17,366,802
Over \$1,000,000	166	29,818,169	81	45,948,909	18	44,043,686
TOTAL	81,724	\$335,210,145	42,779	\$284,818,592	15,842	\$250,928,050

Tax Liability Class	Small Business Credit		Unincorporated Business Credit		Higher Education Contribution Credit	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
\$0 - \$99	4,590	\$18,004,006	2,076	\$173,321	11	\$2,996
\$100 - \$499	4,704	7,954,189	6,170	382,597	25	431
\$500 - \$999	4,672	9,504,542	6,287	844,487	46	1,864
\$1,000 - \$4,999	7,105	26,234,867	19,056	6,359,852	288	30,870
\$5,000 - \$9,999	141	1,469,297	5,474	4,960,066	191	45,745
\$10,000 - \$49,999	18	371,638	6,101	17,216,500	608	433,456
\$50,000 - \$99,999	0	0	1,073	9,240,574	293	431,873
\$100,000 - \$499,999	1	3,996	723	16,227,699	340	821,531
\$500,000 - \$999,999	0	0	41	3,506,289	61	235,999
Over \$1,000,000	0	0	17	3,865,826	68	277,432
TOTAL	21,231	\$63,542,535	47,018	\$62,777,211	1,931	\$2,282,197

*Data are from returns for firms with tax year ending in December 1997 through November 1998. Capital Acquisition Deduction includes recapture. Number of firms claiming CAD includes firms claiming both a CAD and a recapture, only a CAD, or only a recapture. For tax years beginning after 1999, the CAD is replaced with an investment tax credit.

FY 2003 Estimate

Government Utilities Exemption	\$8,398,000
Exempts the value added of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.	
Gross Receipts Reduction	\$133,635,000
Reduces the adjusted tax base by the amount the tax base exceeds 50 percent of adjusted (apportioned) gross receipts. In FY 1998, 15,842 taxpayers used this filing method. (See Exhibit 13.)	
Gross Receipts Threshold	\$55,723,000
Exempts from the SBT firms with adjusted (apportioned) gross receipts less than \$250,000.	
Higher Education Contribution Credit	\$2,029,000
Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less. In FY 1998, 1,931 taxpayers used this credit. (See Exhibit 13.)	
Historic Preservation Credit	\$200,000
Public Act 534 of 1998 provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. Tax year 1999 was the first year the credit was available.	
Homeless Shelter/Food Bank Credit	\$357,000
Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.	
Insurers' Exemption From Gross Receipts	\$1,122,000
Provides that the SBT base and adjusted tax base of an insurance company is equal to one quarter of the company's apportioned adjusted receipts. Formerly, the base was equal to one quarter of apportioned gross receipts, excluding receipts on the sale of annuities and on reinsurance transactions. The calculation of adjusted receipts also excludes interest, dividends, proceeds from the sale of assets, and certain other receipts from affiliated insurers, nonprofit corporations, or agents or employees of a company. The provision is retroactive to January 1, 1991.	

FY 2003 Estimate**Insurers' Facility Assessment Credit**

\$53,804,000

Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.

Investment Tax Credit

\$396,518,000

Public Act 115 of 1999 replaces the capital acquisition deduction (CAD) with an investment tax credit (ITC) starting in tax years beginning in 2000. Under the ITC, taxpayers receive a credit for investment in tangible real and personal property located in Michigan and apportioned investment in mobile property wherever it is located. The ITC rate is 0.85 percent and the switch from the CAD in effect for 1997-1999 is expected to be revenue neutral. In FY 1998, 81,724 firms claimed the CAD.

Michigan Economic Growth Authority (MEGA)

\$45,520,000

Provides credits for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location. The MEGA tax expenditure estimate represents the total amount of SBT credits approved for a given year. It is likely that all credits will not be utilized in a given year.

Minority Venture Capital Credit

\$0

Provides a 50 percent credit for investments in a minority venture capital company or federally-licensed small business investment company if the company is certified as eligible by the Michigan Strategic Fund.

Nonprofit Organizations

\$75,933,000

Exempts the value added of most firms exempt from the federal corporate income tax.

Renaissance Zones

\$3,770,000

Provides a credit for the portion of tax attributable to business activity in a renaissance zone.

FY 2003 Estimate

Small Business-Low Profit Credit (Alternate Tax Rate)

\$114,868,000

For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 1998, 21,231 SBT filers claimed a small business-low profit credit. (See Exhibit 13.) An additional 17,823 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income.

Statutory Exemption

\$19,731,000

Provides an exemption of up to \$45,000. Partnerships receive an additional exemption of \$12,000 per partner up to a limit of \$48,000. This exemption is reduced by \$2 for every \$1 that modified business income exceeds these amounts.

Supplemental Workers Compensation Credit

\$5,889,000

Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.

Unincorporated Business Credit

\$56,768,000

Provides a credit with a ceiling of 20 percent of the SBT liability for business income up to \$20,000 and a floor of 10 percent for business income over \$40,000. This credit exists to provide a more equal treatment of business income.

In a corporation, business income may be divided into salaries, dividends, and retained earnings. While retained earnings are subject to the SBT, they are not subject to the individual tax. However, the business income of an unincorporated business is subject to both single business and individual income taxes. This provision was used by 47,018 taxpayers in FY 1998. (See Exhibit 13.)

Utility Property Tax Credit

\$6,624,000

Provides a tax credit equal to 5 percent of the state utility property tax for telegraph and telephone companies.

CHAPTER 5

CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include expenditures associated with alcohol taxes, cigarette taxes, and sales and use taxes. Total consumption tax expenditures are projected to increase to \$8,247.8 million in FY 2003, a 4.2 percent increase over the FY 2002 level of \$7,918.1 million. Sales and use tax expenditure estimates are based on FY 1999 through FY 2001 data. Alcohol and cigarette tax expenditure estimates were based on FY 2001 data.

- Estimate Reliability**
- (1) Alcohol and Cigarette Taxes
 - Residential Utilities Exemption
 - (3) Other Sales and Use Tax Expenditures

Because firms' sales tax returns provide no information regarding most sales of exempt goods or services, sales and use tax expenditures are difficult to estimate. For example, because restaurants do not report the actual gratuities and tips their workers receive, it is not possible to accurately gauge the revenue lost from excluding these payments from the sales tax base. In this and many other instances, it was necessary to base estimates on restrictive assumptions. In addition, many estimates were based on national sales data apportioned to Michigan.

Cigarette tax expenditure estimates were based on recent wholesaler tax return data. These estimates are reliable.

Consumption Tax Expenditure Changes

Public Acts 39 and 40 of 2001 allow a sales and use tax exemption for the purchase of commercial planes which transport passengers that are subsequently leased to an air carrier. These acts eliminate leasing companies from having to register for a sales and use tax exemption certificate.

Public Act 102 of 2001 provides that liquor wholesalers are not required to obtain a sales tax exemption certificate from purchasers of their products.

Public Act 122 of 2001 allows Michigan to participate in the Streamlined Sales Tax Project, which is designed to simplify and modernize sales and use tax administration and collection procedures for all states with a sales and use tax.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2003 (millions of dollars).

**Alcohol Beverage Taxes
(millions)**

<u>Tax</u>	<u>Location of Deposit</u>	<u>FY 2003 Revenue</u>
Beer and Wine Excise	General Fund	\$51.5
4.0 Percent Liquor Excise	School Aid Fund	\$29.8
4.0 Percent Liquor Specific	General Fund	\$29.8
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$10.8
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$29.8
		<u>FY 2003 Estimate</u>
Beer Shipped Out-of-State		n.a.
Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.		
Homemade Wine		n.a.
Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.		
Small Brewer's Credit		\$100,000
Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.		

Cigarette Tax

In 1929, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers; the tax rate is currently 75 cents per pack. Cigarette tax revenues are distributed to the School Aid Fund, the Health and Safety Fund, the Healthy Michigan Fund, and the General Fund-General Purpose account. In FY 2003, the cigarette tax will yield an estimated \$551.0 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$17.0 million.

		<u>FY 2003 Estimate</u>
Licensee Expenses		\$6,555,000
Exempts 1.25 percent of the total tax due from licensees to cover their expenses in administering the tax.		
Sales on Military Bases and Reservations		\$5,775,000
Exempts the sale of cigarettes on U.S. military bases and to Native Americans living on reservations.		

State Convention Facility Development Tax

Public Act 106 of 1985 is known as the State Convention Facility Development Act. The Act levies a tax of 1.5 percent of the room charge on hotels with 81 to 160 rooms located in Wayne (excluding Detroit), Oakland, and Macomb Counties, and 5 percent on hotels with over 160 rooms. For Detroit, the tax rates are 3 and 6 percent. The Act became effective October 1, 1985. Revenue is dedicated to pay for qualified convention facilities, with excess revenue returned to Michigan counties.

FY 2003 Estimate

Small Hotel Exemption

n.a.

Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.

Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$6,825.0 million in FY 2003. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. A state law earmarks to the Comprehensive Transportation Fund 4.65 percent of the sales tax on transportation-related items. The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total \$1,435.0 million in FY 2003. Due to their complementary nature, sales and use tax expenditures are reported together.

FY 2003 Estimate

Air and Water Pollution

\$35,000,000

Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.

Aircraft Parts

\$8,355,000

Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.

Bad Debts

\$60,297,000

Effective January 1, 1984, allows a retailer to deduct the amount of bad debts related to previously reported taxable retail sales at the time that these debts became worthless or uncollectible.

	<u>FY 2003 Estimate</u>
Cargo Aircraft Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	\$30,000,000
Church Construction Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	\$3,100,000
Church Cars Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	\$4,333,000
Collection Fee Sales and use tax returns are due by the 15th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 7th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 8th through the 15th of the month.	\$16,224,000
Commercial Domestic Aircraft Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	\$5,000,000
Commercial Vessels Exempts sale of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	n.a.
Communication and Telephone Exemption Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	\$37,000,000
Damaged Beer Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.	n.a.

FY 2003 Estimate

Delayed Payment	\$3,013,000
Allows a delayed payment of the sales tax on certain construction materials that are purchased on credit. The cost of this exemption is an interest cost to the state resulting from the delayed receipt of the revenue. This exemption was created by Public Act 453 of 1998.	
Donated Property	n.a.
Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	
Driver Training	\$590,000
Exempts property used for demonstration or driver training programs.	
Employee Meals	\$7,000,000
Starting in 2002, exempts meals provided by employers to their employees.	
Enterprise Zone Credit	n.a.
Upon certification by the Enterprise Zone Authority, exempts qualified business from sales and use tax on property used in a qualified business activity in an enterprise zone.	
Food	\$867,635,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	
Food for Students	\$46,924,000
Exempts sales of food by nonprofit schools or other similar educational institutions to students.	
Government or Red Cross	\$162,948,000
Exempts sales of the United States or its unincorporated agencies and instrumentalities; the American Red Cross; and the State of Michigan, its departments, institutions, and political divisions.	
Gratuity and Tips	\$45,384,000
Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	
Horticultural and Agricultural Products	\$130,275,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	

FY 2003 Estimate

Industrial Processing	\$769,008,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and nondurable manufacturing equipment and utility expenses.	
Inmate Purchases	\$570,000
Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	
International Telecommunications	\$43,677,000
Exempts international and WATTS calls from the use tax.	
Interstate Trucks and Trailers	\$38,465,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax.	
Investment Coins	\$300,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
Isolated Sales	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
Military PX Sales	\$1,598,000
Exempts military post-exchange sales.	
Military Vehicle Sales	n.a.
Exempts vehicle sales to nonresidents serving in the U.S. armed forces.	
Military Vehicle Sales (Resident-Out-of-State)	n.a.
Exempts an automobile purchased in another state by a Michigan resident in the military service who pays a sales tax in the state where the automobile is purchased.	
Newspapers, Periodicals and Films	\$95,870,000
Exempts sales of copyrighted motion picture films, newspapers, and periodicals.	

FY 2003 Estimate

Nonprofit Ambulance and Fire Service	n.a.
Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	
Nonprofit Hospital or Housing Construction	\$10,396,000
Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing.	
Nonprofit Organizations	\$180,551,000
Exempts sales to nonprofit schools, hospitals, homes for the care and maintenance of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation or a parent-cooperative preschool.	
Nonprofit Sales Under \$5,000	n.a.
Exempts aggregate calendar year sales under \$5,000 for qualified nonprofit organizations.	
Nonresident Merchandise Transfer	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
Nonresident Property	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
Ophthalmic and Orthopedic Products	\$49,565,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
Prescription Drugs	\$414,811,000
Exempts prescription drugs for human consumption.	
Radio and TV	\$4,400,000
Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission.	

FY 2003 Estimate

Rail Rolling Stock	\$1,657,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
Residential Utilities	\$107,500,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the two percent increase (May 1994) in the sales and use tax rate.	
Returned Vehicles	\$1,100,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
Sale of Business	n.a.
Excludes from the use tax noninventoried property purchased as part of a business.	
Sale of Water	\$81,578,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
Services	\$4,806,304,000
Exempts services for items listed in the following table:	

Service Tax Expenditures, FY 2003
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$6.9	\$0.0	\$6.9
Admin. and Support and Waste Mgmt.	717.7	0.0	717.7
Arts, Entertainment, and Recreation	134.9	31.5	166.4
Educational Services	28.7	23.7	52.4
Health Care and Social Assistance	723.3	1191.6	1,914.9
Other Services (except Public Admin.)	251.8	212.4	464.2
Professional, Scientific, and Technical	1,118.3	15.3	1,133.6
Real Estate and Rental and Leasing	<u>350.2</u>	<u>0.0</u>	<u>350.2</u>
TOTAL	\$3,331.8	\$1,474.5	\$4,806.3

Source: Calculations by ORTA using the *1997 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce.

FY 2003 Estimate**Small Out-of-State Purchases**

n.a.

Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.

Telephone Services

\$16,895,000

Exempts tangible personal property located on the premises of the subscriber and central office equipment or wireless equipment directly used in transmitting, receiving, or switching, or in the monitoring or switching or a two-way interactive device.

Textbooks Sold by Schools

n.a.

Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.

Vehicle and Aircraft Transfers

\$125,447,000

Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercrafts.

Vehicles Purchased for Use in Another State

n.a.

Provides for an adjusted tax on the sales of a vehicle for use in another state. Public Act 228 of 1984 provides that the sales tax charged shall not be more than would have been paid if purchased in the other state.

Vending Machines and Mobile Facilities

\$22,500,000

Exempts the portion of gross proceeds representing commissions paid to an entity otherwise exempt from the sales tax where the gross proceeds are from certain nonelectrically-operated vending machines where consideration is 10 cents or less. Also exempts sales of nonalcoholic beverages, and items sold near room temperature from a mobile facility or vending machine.

CHAPTER 6

INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 3.1 percent from \$3,795.4 million in FY 2002 to \$3,911.6 million in FY 2003. Federal income tax expenditures are projected to increase 3.6 percent from \$1,866.8 million in FY 2002 to \$1,934.2 million in FY 2003. Individual income tax expenditure estimates were based on tax year 2000 data.

- Estimate Reliability**
- (1) State Income Tax Expenditures
 - (3) Federal Income Tax Expenditures

State income tax expenditure estimates are reliable because they are based on actual tax year 2000 individual tax returns. In addition, most state income tax expenditures are credits that are relatively stable from year to year.

In contrast, federal income tax expenditure estimates are less reliable. Federal income tax expenditures are estimated by apportioning total (national) federal tax expenditure estimates to Michigan using a three-step formula (outlined later). Thus, Michigan federal income tax expenditure estimates will only be as reliable as federal government (national) estimates and the assumptions used to apportion those estimates to Michigan.

Individual Income Tax Expenditure Changes

Public Acts 2 to 6 of 1999 began a phased-in reduction of the Michigan income tax rate. Michigan's income tax rate was 4.4 percent in 1999. The rate was scheduled to be reduced by 0.1 percentage point per year for tax years 2000 through 2004. Thus, the tax rate would be 4.3 percent in 2000, 4.2 percent in 2001, 4.1 percent in 2002, 4.0 percent in 2003, and 3.9 percent in 2004. Public Act 40 of 2000 accelerated the rate cut by reducing the 2000 tax rate to 4.2 percent. The rate remained at 4.2 percent until January 1, 2002, when the rate fell to 4.1 percent and returned to the rate path outlined in Public Acts 2 to 6 of 1999.

A reduction in the income tax rate reduces the size of income tax expenditures dependent on the rate. For example, an income tax exemption of \$100 for one taxpayer represents a \$4.40 tax expenditure at an income tax rate of 4.4 percent. At a 3.9 percent tax rate this exemption would represent a \$3.90 tax expenditure.

Public Act 499 of 2000 provided for the elimination of the prescription drug credit in the tax year following the implementation of the Elder Prescription Insurance Coverage (EPIC) program. The EPIC program began operation in the fourth quarter of calendar 2001. Thus, the drug credit is repealed for tax years beginning after December 31, 2001.

Public Act 169 of 2001 extends the home heating credit for all tax years after 2000 if a federal appropriation of funds under the Low Income Home Energy Assistance Program is made. Previously, legislation authorizing the home heating credit was due to expire after 2000.

Public Act 215 of 2001 revised the penalty for nonqualified withdrawals from accounts established under the Michigan Education Savings Program. The Act also revised the method for determining the maximum contribution amount and imposed a limit of one account per account owner for each designated beneficiary.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. As noted in the previous section, the tax rate for tax year 2000 was 4.2 percent. The tax rate fell to 4.1 percent for tax year 2002. For FY 2003, the State of Michigan will collect an estimated \$6,807.4 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2000, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.2 percent to an average effective rate of 2.7 percent. (See Exhibits 14 through 18.)

FY 2003 Estimate

Adjustments to Income

\$2,074,300,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by \$43.7 billion in calendar year 2000. This reduced 2000 income taxes by \$1,834.6 million.

Adoption Credit

\$600,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. Beginning in tax year 2002, the federal credit is a 100 percent credit for the first \$10,000 dollars of adoption expenses. The Michigan adoption credit provides a 100 percent credit for up to an additional \$1,200 in expenses over the \$10,000 federal credit.

FY 2003 Estimate**Child Deduction**

\$54,000,000

The child deduction, which was expanded by Public Act 42 of 2000, provides a deduction from AGI of \$600 for each dependent child 18 years or younger.

City Income Tax Credit

\$40,200,000

Provides a credit to individuals for income taxes paid to cities. In the 1999 tax year, city income tax credits totaled \$38.6 million. (See Exhibit 14.)

College Savings Account

\$6,000,000

Provides a deduction of up to \$10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made for qualified educational expenses are also exempt from taxation.

Community Foundation Credit

\$3,300,000

Provides a credit for 50 percent of the contribution made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to \$100 for a single return or \$200 for a joint return.

Dependent Exemption

\$26,400,000

Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to \$1,500. Public Act 301 of 2000 increased the dependent exemption from \$1,000 to \$1,500 starting in tax year 2000.

Farmland Development Credit

\$24,200,000

Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses. (See Exhibit 18 on page 55.) This credit was expanded by Public Act 421 of 2000.

Exhibit 14
Selected Individual Income Tax Expenditures, CY 2000

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	462,695	9.7%	14,011	\$110,893	924	\$66,791
2,001 - 4,000	203,278	4.3%	31,527	252,662	1,060	46,847
4,001 - 6,000	191,773	4.0%	34,947	395,684	1,459	73,617
6,001 - 8,000	175,287	3.7%	34,304	479,317	1,848	99,168
8,001 - 10,000	165,506	3.5%	32,921	540,892	2,059	111,829
10,001 - 12,000	157,308	3.3%	31,750	598,385	2,282	125,488
12,001 - 14,000	148,921	3.1%	30,755	654,139	2,595	148,582
14,001 - 16,000	145,010	3.0%	30,601	713,108	2,962	174,489
16,001 - 18,000	140,561	2.9%	30,905	790,642	3,157	191,167
18,001 - 20,000	134,365	2.8%	30,710	837,784	3,466	214,400
20,001 - 25,000	308,776	6.5%	74,494	2,276,551	8,721	564,613
25,001 - 30,000	270,685	5.7%	65,269	2,199,464	9,607	629,741
30,001 - 35,000	237,854	5.0%	57,783	2,058,324	9,903	659,628
35,001 - 40,000	209,676	4.4%	51,726	1,964,605	10,607	725,409
40,001 - 45,000	188,134	3.9%	47,693	1,900,811	10,973	765,171
45,001 - 50,000	172,317	3.6%	44,382	1,821,424	11,409	807,356
50,001 - 55,000	160,677	3.4%	42,446	1,800,159	11,487	839,823
55,001 - 60,000	149,317	3.1%	40,269	1,780,076	11,679	876,436
60,001 - 70,000	258,041	5.4%	70,255	3,221,497	23,233	1,812,069
70,001 - 80,000	202,755	4.2%	56,268	2,673,997	21,289	1,740,941
80,001 - 90,000	154,743	3.2%	43,790	2,182,738	19,300	1,643,920
90,001 - 100,000	116,811	2.4%	33,390	1,775,966	17,050	1,515,724
Over 100,000	428,354	9.0%	105,551	7,547,539	97,237	10,725,988
TOTAL	4,782,844	100.0%	1,035,747	\$38,576,656	284,307	\$24,559,197

*Includes 271,283 credit-only returns (zero income).

FY 2003 Estimate**Higher Education/Public Contributions Tax Credit**

\$27,800,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2000, the higher education/public contributions tax credit totaled \$24.6 million. (See Exhibit 14.)

Historic Preservation Credit

\$300,000

Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.

Holocaust Survivor Asset Recovery Deduction

n.a.

Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.

Home Heating Assistance Credit

\$500,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2001, these credits totaled an estimated \$57.8 million. The home heating credit is primarily funded with federal funds. Thus, the credit's net cost to the state was \$1.8 million in FY 2001. A reduction in the number of state-funded credits beginning in FY 2002 results in decline from prior-year estimates.

Homestead Property Tax Credit

\$538,200,000

Provides a refundable credit against income tax liability for property tax paid. In most cases, this credit is 60 percent of the amount by which property taxes exceed 3.5 percent of household income. Renters may use 20 percent of the rent paid to approximate their property tax, and then calculate their credit as above.

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2000, homestead credits, excluding the farmland credit itemized separately, totaled \$497.6 million (Exhibit 18). Of the homestead credits, 51.5 percent went to general taxpayers, 44.2 percent went to senior citizens, and the remaining 4.3 percent went to veterans and blind and disabled persons.

FY 2003 Estimate

Homeless/Food Bank Credit

\$17,900,000

Provides a credit for 50 percent of the donations made to homeless shelters, food banks, and food kitchens. The credit is limited to \$100 for a single return or \$200 for a joint return.

Other State Tax Credit

\$36,000,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2000, taxpayers claimed \$31.8 million in credits.

Personal Exemption

\$989,100,000

Exempts \$2,900 (tax year 2000) from AGI for each personal exemption claimed on the federal income tax return. For the 1998 tax year and later years, the personal exemption is indexed to the rate of inflation. For the 2002 tax year, the personal exemption will be \$3,000. The personal exemption reduced tax year 1999 revenue by approximately \$947.2 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 15. Effective exemptions are exemptions that offset actual income.

Renaissance Zones

\$300,000

Public Act 376 of 1996 establishes Renaissance Zones. Public Act 98 of 1999 allows for the designation of 10 additional zones. Public Act 139 of 1999 lets the communities with zones designated in 1996 establish new subzones and extend the tax cuts in their subzones. The Income Tax Act exempts residents of the zones from tax on most types of income. Special provisions apply to capital gains, interest, dividend, and lottery income.

Special Exemption

\$39,300,000

Allows a taxpayer and his or her spouse to each claim an \$1,800 exemption if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an \$1,800 exemption for disabled or senior dependents.

Tuition Credit

\$11,700,000

Provides a credit equal to eight percent of college tuition costs for residents who earn less than \$200,000 annually provided the host college or university increases tuition and fees no more than the rate of inflation. The maximum credit is \$375 per student.

Exhibit 15
Selected Individual Income Tax Expenditures by Income Class, CY 2000

Adjusted Gross Income	MI-1040s		Gen. Prop. Tax Credit		Effective Exemptions⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	302,440	6.3%	24,218	\$11,800,354	0	\$0
0 - 2,000	160,255	3.4%	12,928	4,838,996	23,963	2,918,671
2,001 - 4,000	203,278	4.3%	21,613	7,304,441	76,312	9,294,843
4,001 - 6,000	191,773	4.0%	29,324	10,187,118	104,391	12,714,770
6,001 - 8,000	175,287	3.7%	35,404	12,666,526	128,996	15,711,657
8,001 - 10,000	165,506	3.5%	38,049	13,776,994	151,162	18,411,518
10,001 - 12,000	157,308	3.3%	37,598	13,457,193	163,456	19,908,893
12,001 - 14,000	148,921	3.1%	37,118	12,793,400	170,912	20,817,040
14,001 - 16,000	145,010	3.0%	36,913	12,371,110	178,304	21,717,472
16,001 - 18,000	140,561	2.9%	36,922	11,973,923	186,149	22,672,893
18,001 - 20,000	134,365	2.8%	36,245	11,541,713	191,444	23,317,866
20,001 - 25,000	308,776	6.5%	82,473	25,609,469	478,290	58,255,691
25,001 - 30,000	270,685	5.7%	67,455	20,870,864	447,039	54,449,363
30,001 - 35,000	237,854	5.0%	54,158	17,171,380	417,661	50,871,106
35,001 - 40,000	209,676	4.4%	42,795	14,159,254	406,003	49,451,142
40,001 - 45,000	188,134	3.9%	33,199	11,494,908	394,012	47,990,654
45,001 - 50,000	172,317	3.6%	26,526	9,738,478	384,876	46,877,884
50,001 - 55,000	160,677	3.4%	22,076	8,388,585	365,631	44,533,856
55,001 - 60,000	149,317	3.1%	17,983	7,217,086	366,699	44,663,995
60,001 - 70,000	258,041	5.4%	27,440	11,552,357	670,131	81,622,000
70,001 - 80,000	202,755	4.2%	17,991	6,662,602	547,712	66,711,297
80,001 - 90,000	154,743	3.2%	4,323	646,036	433,308	52,776,963
90,001 - 100,000	116,811	2.4%	130	59,199	333,837	40,661,356
Over 100,000	428,354	9.0%	234	129,578	1,509,883	183,903,718
TOTAL	4,782,844	100.0%	743,115	\$256,411,564	8,130,170	\$990,254,649

⁽¹⁾ Effective exemptions in this exhibit are personal exemptions that offset exemptions.
This number does not include disabled and other special exemptions.

⁽²⁾ Includes 271,283 credit-only returns.

Exhibit 16
Effective Income Tax Rates by Income Class, CY 2000⁽¹⁾

Adjusted Gross Income	Total Adjusted Gross Income	Total Income Tax Paid	Effective Tax Rate
Zero Income ⁽²⁾	(\$2,678,944,420)	(\$99,277,078)	
\$0 - 2,000	182,390,975	(17,706,841)	-9.71%
2,001 - 4,000	608,600,336	(14,275,482)	-2.35%
4,001 - 6,000	956,144,495	(10,313,985)	-1.08%
6,001 - 8,000	1,224,822,168	(8,771,122)	-0.72%
8,001 - 10,000	1,489,322,148	(6,340,107)	-0.43%
10,001 - 12,000	1,729,201,143	119,950	0.01%
12,001 - 14,000	1,934,851,406	8,431,008	0.44%
14,001 - 16,000	2,174,584,691	17,529,101	0.81%
16,001 - 18,000	2,388,541,800	27,847,912	1.17%
18,001 - 20,000	2,551,312,488	37,954,267	1.49%
20,001 - 25,000	6,930,851,870	132,721,905	1.91%
25,001 - 30,000	7,430,525,519	167,811,652	2.26%
30,001 - 35,000	7,715,587,401	189,787,235	2.46%
35,001 - 40,000	7,853,853,797	204,469,015	2.60%
40,001 - 45,000	7,987,553,938	217,449,106	2.72%
45,001 - 50,000	8,179,783,038	229,489,434	2.81%
50,001 - 55,000	8,431,400,266	243,657,403	2.89%
55,001 - 60,000	8,580,885,375	252,439,153	2.94%
60,001 - 70,000	16,726,276,060	505,104,992	3.02%
70,001 - 80,000	15,161,863,869	475,363,444	3.14%
80,001 - 90,000	13,116,523,410	428,123,731	3.26%
90,001 - 100,000	11,069,324,510	368,222,045	3.33%
Over 100,000	<u>103,969,369,924</u>	<u>2,997,334,657</u>	<u>2.88%</u>
TOTAL	\$235,714,626,207	\$6,347,171,395	2.69%

Effective rate excluding zero income AGI and Taxes Paid 2.70%

Effective rate excluding zero income AGI 2.66%

⁽¹⁾ Values in this table are based on a sample of the 4,704,648 M I-1040 and M I-1040CR returns.

⁽²⁾ Includes 271,283 credit-only returns (zero income).

Exhibit 17
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2000

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	249.2%	21.4%	-9.4%	190.6%
2,001 - 4,000	101.3%	9.2%	-0.4%	66.2%
4,001 - 6,000	70.9%	11.6%	0.7%	53.7%
6,001 - 8,000	59.8%	15.9%	1.0%	49.7%
8,001 - 10,000	53.3%	19.8%	1.1%	44.9%
10,001 - 12,000	47.0%	22.3%	1.2%	38.0%
12,001 - 14,000	41.7%	23.0%	1.2%	31.7%
14,001 - 16,000	37.6%	22.9%	1.3%	26.6%
16,001 - 18,000	33.8%	21.2%	1.3%	22.0%
18,001 - 20,000	30.8%	18.8%	1.3%	18.4%
20,001 - 25,000	26.3%	16.0%	1.3%	13.8%
25,001 - 30,000	21.9%	15.3%	1.2%	9.9%
30,001 - 35,000	19.1%	15.1%	1.2%	7.6%
35,001 - 40,000	17.8%	14.1%	1.2%	6.0%
40,001 - 45,000	16.7%	13.4%	1.2%	4.8%
45,001 - 50,000	15.8%	13.0%	1.2%	3.9%
50,001 - 55,000	15.0%	12.9%	1.2%	3.3%
55,001 - 60,000	14.2%	12.3%	1.2%	2.8%
60,001 - 70,000	13.3%	11.8%	1.2%	2.3%
70,001 - 80,000	12.0%	11.2%	1.3%	1.4%
80,001 - 90,000	10.8%	10.3%	1.3%	0.1%
90,001 - 100,000	9.8%	9.9%	1.3%	0.0%
Over 100,000	3.9%	25.8%	0.9%	0.0%

⁽¹⁾ The effective exemption number includes special exemptions (e.g., disabled exemption).

⁽²⁾ Income tax credits were divided by the tax rate (4.2%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other state community foundation, and the homeless food bank credit.

Exhibit 18
Property Tax Credits by County, CY 2000

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	400	\$102,400	400	\$146,800	100	\$5,400
ALGER	300	82,700	300	87,300	< 50	4,600
ALLEGAN	5,400	1,765,500	2,900	1,617,200	100	13,000
ALPENA	1,600	380,300	1,500	614,600	100	12,500
ANTRIM	1,200	401,700	900	548,100	< 50	4,500
ARENAC	900	261,700	700	333,700	< 50	5,200
BARAGA	200	47,400	200	90,200	< 50	5,900
BARRY	2,300	707,800	1,400	703,600	100	6,900
BAY	7,500	2,038,500	5,400	2,819,100	300	37,500
BENZIE	800	204,700	500	256,200	100	4,900
BERRIEN	10,800	2,950,800	6,100	2,966,100	200	21,600
BRANCH	2,200	710,100	1,300	689,500	100	9,600
CALHOUN	9,700	2,896,900	5,400	2,905,600	300	38,600
CASS	2,000	632,200	1,400	674,400	< 50	5,200
CHARLEVOIX	1,600	487,100	1,100	560,000	< 50	4,000
CHEBOYGAN	1,200	296,800	700	313,300	100	9,000
CHIPPEWA	1,600	401,400	900	354,000	200	19,200
CLARE	1,400	325,300	800	287,600	100	9,400
CLINTON	3,200	1,122,200	1,900	1,049,600	< 50	4,600
CRAWFORD	600	134,900	300	115,300	< 50	4,200
DELTA	1,700	437,700	1,300	484,600	200	25,900
DICKINSON	1,300	333,000	1,300	612,400	200	19,900
EATON	8,400	2,700,400	4,300	2,480,300	100	15,300
EMMET	2,100	663,500	1,200	663,800	100	5,000
GENESEE	30,400	8,157,700	11,400	5,378,800	500	62,500
GLADWIN	1,300	348,300	1,100	441,800	100	9,700
GOGEBIC	500	99,200	600	174,200	200	27,700
GRAND TRAVERSE	6,500	2,111,700	3,300	1,952,600	100	13,400
GRATIOT	1,700	561,100	1,300	639,600	100	8,600
HILLSDALE	2,300	739,300	1,400	667,700	100	9,000
HOUGHTON	1,000	236,300	900	306,600	200	20,900
HURON	2,100	966,200	2,300	1,415,100	100	7,700
INGHAM	28,100	9,413,600	9,100	5,564,300	200	32,600
IONIA	2,800	835,200	1,500	750,000	100	6,500
IOSCO	1,200	295,900	1,000	390,400	200	16,400
IRON	400	82,300	500	141,400	100	13,300
ISABELLA	3,800	1,166,900	1,500	828,500	100	8,700
JACKSON	8,600	2,430,200	4,700	2,269,300	200	23,900
KALAMAZOO	19,300	5,666,600	7,700	4,264,300	200	30,400
KALKASKA	800	187,400	400	207,800	100	4,700
KENT	42,700	12,838,300	18,200	9,942,600	400	47,300
KEWEENAW	0	11,700	0	10,900	< 50	1,900

Exhibit 18 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	500	\$116,700	300	\$118,100	100	\$5,700
LAPEER	4,300	1,482,700	2,100	1,096,500	100	6,400
LEELANAU	900	350,300	700	444,900	< 50	1,500
LENAWEE	5,700	1,892,500	3,700	2,200,500	100	10,700
LIVINGSTON	500	116,700	300	118,100	100	5,700
LUCE	100	26,700	100	15,200	< 50	4,200
MACKINAC	500	138,000	300	153,600	< 50	3,300
MACOMB	66,500	24,957,700	43,900	28,523,300	600	80,300
MANISTEE	1,100	292,600	1,100	480,200	100	11,900
MARQUETTE	2,900	653,300	1,600	652,700	300	36,600
MASON	1,600	422,200	1,200	573,400	100	7,400
MECOSTA	1,600	458,000	1,000	435,900	100	7,600
MENOMINEE	900	225,400	800	291,400	100	13,700
MIDLAND	4,300	1,200,100	2,100	1,063,000	100	14,300
MISSAUKEE	600	214,900	400	203,300	< 50	4,100
MONROE	7,500	2,521,400	5,000	2,836,600	100	14,300
MONTCALM	3,100	954,200	2,200	1,073,700	100	13,400
MONTMORENCY	400	91,100	300	101,400	100	5,000
MUSKEGON	10,500	2,745,200	6,000	2,841,400	300	39,300
NEWAYGO	2,100	630,200	1,300	668,600	100	8,200
OAKLAND	98,600	45,323,400	45,700	34,785,500	500	64,300
OCEANA	1,200	389,300	900	450,900	100	6,600
OGEMAW	1,100	273,800	800	318,400	100	8,800
ONTONAGON	200	54,300	200	61,800	100	6,500
OSCEOLA	1,100	315,700	800	332,800	100	8,600
OSCODA	300	52,700	100	42,300	< 50	2,400
OTSEGO	1,000	253,800	500	220,200	100	5,100
OTTAWA	14,200	4,508,800	8,200	4,781,000	200	18,600
PRESQUE ISLE	500	140,000	600	228,000	100	5,800
ROSCOMMON	1,400	362,100	1,000	394,700	100	9,900
SAGINAW	12,500	3,186,700	6,700	3,247,200	400	48,700
ST. CLAIR	11,700	3,826,900	6,800	3,971,300	300	29,300
ST. JOSEPH	3,100	917,900	1,900	849,000	100	9,800
SANILAC	2,600	966,600	2,000	1,121,000	100	9,100
SCHOOLCRAFT	300	53,900	200	52,500	100	6,100
SHIAWASSEE	4,600	1,311,100	2,700	1,347,500	100	12,900
TUSCOLA	3,000	966,400	2,100	1,229,100	100	14,200
VAN BUREN	5,000	1,573,300	2,900	1,578,700	100	11,400
WASHTENAW	32,400	14,050,300	8,900	7,131,200	100	12,300
WAYNE LESS DETROIT	85,000	32,986,700	50,500	35,473,700	700	98,700
WEXFORD	1,900	504,500	1,100	487,100	100	11,600
OUTSIDE OF MICHIGAN	6,900	2,304,600	2,300	1,477,000	100	8,700
DETROIT	110,700	33,826,100	30,900	18,066,500	800	169,700
TOTAL	743,100	\$256,411,600	364,200	\$220,132,000	12,200	\$1,511,100

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$19,500	< 50	\$10,600	900	\$284,700
ALGER	< 50	7,100	< 50	1,400	700	183,100
ALLEGAN	300	122,700	100	450,900	8,900	3,969,200
ALPENA	300	75,600	< 50	7,000	3,500	1,090,000
ANTRIM	100	37,100	< 50	11,200	2,300	1,002,500
ARENAC	100	29,700	100	142,400	1,700	772,600
BARAGA	< 50	8,400	< 50	0	500	151,900
BARRY	100	47,600	100	124,400	3,900	1,590,400
BAY	700	256,100	300	692,300	14,100	5,843,600
BENZIE	100	15,300	< 50	2,900	1,400	484,100
BERRIEN	800	320,100	100	214,800	18,000	6,473,300
BRANCH	100	52,900	200	398,100	4,000	1,860,200
CALHOUN	800	345,400	200	378,900	16,400	6,565,500
CASS	100	48,300	100	467,900	3,700	1,828,000
CHARLEVOIX	100	34,900	< 50	9,500	2,800	1,095,500
CHEBOYGAN	100	37,200	< 50	19,100	2,100	675,300
CHIPPEWA	100	39,700	< 50	7,300	2,800	821,600
CLARE	200	48,500	< 50	39,300	2,500	710,100
CLINTON	100	49,100	200	246,800	5,300	2,472,200
CRAWFORD	< 50	11,100	< 50	0	1,000	265,600
DELTA	200	60,800	< 50	43,300	3,400	1,052,300
DICKINSON	100	28,800	< 50	7,000	2,900	1,000,900
EATON	300	153,700	100	280,900	13,300	5,630,700
EMMET	100	35,600	< 50	2,900	3,500	1,370,700
GENESEE	2,300	932,900	100	130,200	44,600	14,662,000
GLADWIN	200	56,700	< 50	27,700	2,700	884,100
GOGEBIC	100	19,600	< 50	0	1,400	320,600
GRAND TRAVERSE	300	131,100	< 50	32,100	10,300	4,240,700
GRATIOT	100	43,200	300	652,800	3,500	1,905,300
HILLSDALE	200	69,200	200	306,600	4,100	1,791,900
HOUGHTON	200	43,300	< 50	0	2,300	607,100
HURON	200	67,500	900	2,695,000	5,500	5,151,500
INGHAM	1,500	661,500	100	646,400	39,000	16,318,400
IONIA	200	56,700	100	284,000	4,700	1,932,400
IOSCO	100	39,300	< 50	22,200	2,600	764,200
IRON	100	17,100	< 50	6,000	1,100	260,100
ISABELLA	200	95,800	100	240,700	5,700	2,340,600
JACKSON	600	232,000	100	219,600	14,100	5,175,000
KALAMAZOO	1,100	465,000	100	376,900	28,400	10,803,100
KALKASKA	100	20,000	< 50	4,200	1,300	424,100
KENT	1,900	871,100	100	363,900	63,300	24,063,300
KEWEENAW	< 50	1,900	< 50	0	100	26,400

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	100	\$27,900	< 50	\$4,200	900	\$272,700
LAPEER	200	72,100	100	138,100	6,700	2,795,800
LEELANAU	< 50	12,500	< 50	34,000	1,700	843,100
LENAWEE	400	179,200	400	1,149,800	10,300	5,432,800
LIVINGSTON	300	138,900	< 50	4,200	10,600	4,886,800
LUCE	< 50	4,600	< 50	100	300	50,800
MACKINAC	< 50	17,200	< 50	2,300	1,000	314,400
MACOMB	2,800	1,644,000	< 50	25,900	113,900	55,231,100
MANISTEE	100	40,200	< 50	2,800	2,400	827,700
MARQUETTE	300	90,900	< 50	2,000	5,100	1,435,400
MASON	100	48,500	< 50	98,900	3,000	1,150,400
MECOSTA	100	41,200	< 50	79,900	2,800	1,022,500
MENOMINEE	100	16,700	< 50	46,200	1,900	593,500
MIDLAND	300	117,000	< 50	90,800	6,900	2,485,300
MISSAUKEE	< 50	14,500	100	160,000	1,200	596,800
MONROE	600	258,200	100	343,700	13,300	5,974,100
MONTCALM	300	97,400	100	391,800	5,800	2,530,500
MONTMORENCY	100	12,800	< 50	1,100	800	211,300
MUSKEGON	1,100	459,400	100	194,600	18,000	6,279,900
NEWAYGO	200	72,900	100	158,900	3,700	1,538,900
OAKLAND	2,900	1,839,900	< 50	93,700	147,700	82,106,800
OCEANA	100	47,800	100	144,100	2,400	1,038,800
OGEMAW	100	48,100	< 50	63,300	2,100	712,400
ONTONAGON	< 50	6,200	< 50	800	500	129,700
OSCEOLA	100	34,700	100	116,500	2,100	808,500
OSCODA	< 50	15,500	< 50	0	500	112,900
OTSEGO	100	22,000	< 50	0	1,700	501,000
OTTAWA	500	217,500	200	612,800	23,200	10,138,700
PRESQUE ISLE	100	23,100	< 50	19,400	1,300	416,400
ROSCOMMON	200	52,300	< 50	7,900	2,600	827,000
SAGINAW	1,300	503,000	500	982,700	21,400	7,968,300
ST. CLAIR	700	318,700	< 50	97,500	19,400	8,243,800
ST. JOSEPH	200	77,100	100	450,700	5,400	2,304,500
SANILAC	200	73,100	400	825,200	5,200	2,995,000
SCHOOLCRAFT	< 50	6,900	< 50	800	500	120,300
SHIAWASSEE	300	138,000	200	390,800	8,000	3,200,200
TUSCOLA	200	91,800	600	1,721,000	6,100	4,022,500
VAN BUREN	400	148,900	100	389,400	8,500	3,701,600
WASHTENAW	900	526,500	100	409,400	42,300	22,129,700
WAYNE LESS DETROIT	4,000	2,462,100	< 50	24,800	140,200	71,046,000
WEXFORD	200	64,200	< 50	19,500	3,300	1,086,900
OUTSIDE OF MICHIGAN	200	127,100	< 50	91,100	9,500	4,008,400
DETROIT	7,200	3,587,900	< 50	5,300	149,600	55,655,500
TOTAL	41,100	\$19,507,700	7,400	\$19,051,100	1,168,000	\$516,613,400

Federal Income Tax Expenditures

Michigan's income tax uses the federal definition of AGI as the starting point in calculating taxable income. Therefore, income sources excluded from AGI at the federal level are excluded automatically from state income taxation unless the state explicitly adds these items back. This section lists income sources which are not included in the federal definition of AGI and are not added back to Michigan taxable income.

Federal income tax expenditure estimates were derived using a three-step formula:

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.
2. Michigan's share of federal revenue loss divided by the federal average marginal tax rate equals Michigan income excluded from federal taxation.
3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

Federal government estimates are from the *Budget of the United States Government Fiscal Year 2001*. Previous editions of the *Tax Expenditure Report* have used tax expenditure estimates generated by the Joint Committee on Taxation. The estimates in the *Budget of the United States Government* are slightly larger than the estimates produced by the Joint Committee.

The apportionment factors for the various expenditures are based on relevant statistics from the Bureau of Economic Analysis, the U.S. Census Bureau, and other sources. Federal marginal tax rates are from the U.S. Department of Treasury.

The reader is again cautioned regarding the reliability of federal income tax expenditure estimates. The accuracy of these estimates is dependent upon the accuracy of federal estimates, apportionment factor estimates, and marginal tax rate estimates.

FY 2003 Estimate

Accelerated Depreciation

\$47,307,000

When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over the expected life of the property. For tax purposes, a person may deduct depreciation at an accelerated rate.

Employer Contributions to Health and Life Insurance

\$593,854,000

Exempts employer payments for employee medical insurance from taxation. Also exempts employer payments for life insurance premiums, except premiums paid for the portion of policies in excess of \$50,000.

	<u>FY 2003 Estimate</u>
Employer Pension Plans	\$600,559,000
Exempts employer payments into qualified employee pension plans from taxation.	
Federal Adjustments to Income	\$11,443,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
Fellowships and Scholarships	\$6,179,000
Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	
Gain on Sale of Primary Residence	\$115,135,000
Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	
Income Maintenance Benefits	\$3,474,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
Individual Retirement Accounts	\$130,805,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Only persons with an AGI below \$53,000 on a joint return (\$33,000 on a single return) or not covered by an employer retirement plan can take the full \$2,000 deduction. A partial deduction, phased out according to income, is available between \$53,000-\$63,000 for joint filers and \$33,000-\$43,000 for single filers. Federal tax legislation enacted in 2001 increased the maximum contribution limit beginning in 2002.	
Interest on Life Insurance Savings	\$106,292,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
Medical Care Savings Account	\$93,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	

FY 2003 Estimate

Railroad Retirement Benefits

\$1,595,000

Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).

Social Security Benefits

\$225,005,000

Exempts most social security benefits. Federal social security benefits are not taxable under federal law unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law.

Student Loan Deduction

\$2,060,000

Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.

Veterans' Benefits

\$37,033,000

Excludes veterans' benefits administered by the Veterans' Administration from AGI.

Workers' Compensation

\$53,387,000

Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 1.9 percent from \$50.9 million in FY 2002 to \$51.9 million in FY 2003. Transportation tax expenditure estimates were based on FY 2000 and FY 2001 data.

Estimate Reliability (1) Aviation Fuel Tax
 Marine Vessel Fuel
 Motor Fuel Tax
 Motor Vehicle Registration Fee
 Watercraft Registration Fee

Because most transportation tax expenditures require taxpayers to claim a refund from the state, transportation tax expenditure estimates have a relatively high degree of reliability. In addition, all estimates were based on recent data.

Transportation Tax Expenditure Changes

There were no legislative changes to transportation taxes in 2001.

Aircraft Registration and Transfer Fee

In lieu of general or local property taxes on aircraft, the state levies an aircraft registration fee. The tax base is either the maximum gross weight or maximum take-off weight, whichever is greater. The registration fee is assessed at one cent per pound. The transfer fee is \$1. These fees will yield an estimated \$300,000 to the state's Aeronautics Fund in FY 2003.

Aviation Fuel Tax Expenditures

Enacted in 1929, the aviation fuel tax is a tax on fuel sold for propelling aircraft. It is levied on the privilege of using aviation facilities, and the rate is three cents per gallon. In FY 2003, the aviation fuel tax is projected to yield \$6.7 million which is deposited into the state's Aeronautics Fund.

FY 2003 Estimate

Federally-Owned Aircraft	\$251,000
Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	

FY 2003 Estimate

Interstate Flight Refund

\$4,845,000

Airlines that operate scheduled interstate flights receive a refund of 1.5 cents per gallon of aviation fuel used.

Marine Vessel Fuel Tax Expenditures

Enacted in 1947, the marine vessel fuel tax is levied on the privilege of operating vessels on navigable streams. The rate is 15 cents per gallon on diesel fuel. Two percent of gasoline sales is assumed to be for off-road use and is earmarked to the Recreation Improvement Fund. Not less than 80 percent of this amount is transferred to the Waterways Fund.

FY 2003 Estimate

Marine Vessel Exemption

\$687,000

Exempts watercraft used: by federal, state, or local governments; for commercial fishing; by the Sea Scouts; in interstate or foreign commerce; by a railroad company; and in connection with an activity providing a person's chief means of livelihood from the tax on marine fuels.

Motor Carrier Privilege Fee

A \$100 fee is assessed on most vehicles operating on highways by common and contract carriers. Buses, trucks, or tractors used solely for the transportation of household goods pay a \$50 fee. The fee was enacted in 1929 for the privilege of using highways. Revenue is deposited into the Michigan Transportation Fund. There are no tax expenditures associated with this fee.

Motor Fuel Taxes

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate at the pump is 15 cents per gallon (a six-cent discount is permitted for diesel fuel purchased by motor carriers). Revenue goes to the Michigan Transportation Fund, which is used by the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2003, motor fuel taxes will yield an estimated \$1,096.0 million.

Motor carriers also pay a motor carrier diesel fuel tax equal to 21 cents per gallon of fuel used in Michigan and claim a credit for Michigan diesel tax paid at the pump and a credit of six cents per gallon for sales tax paid at the pump.

FY 2003 Estimate

Diesel Fuel for Railroads

n.a.

Exempts diesel fuel used by railroad locomotives from motor fuel taxes.

Evaporation and Loss Allowance

\$15,068,000

The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.

Fuel for Job Sites and Charter Firms

\$4,964,000

Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.

Fuel for Off-Road Use

\$416,000

Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.

Municipal Franchise Vehicles

\$560,000

Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.

Public Vehicles

\$11,069,000

Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, passenger vehicles became taxable on their value instead of their weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2003, the motor vehicle registration fee is projected to yield \$846.0 million.

FY 2003 Estimate

Disabled Veterans' Vehicles

\$149,000

Provides totally disabled veterans free vehicle license plates.

Handicapper Vans

n.a.

Reduces the tax by 50 percent for vans which are owned by persons using a wheelchair.

FY 2003 Estimate

Intercity Commercial Buses

n.a.

Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.

Public and Nonprofit Vehicles

\$13,885,000

Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period.

Watercraft Registration Fee

A fee is assessed on motorboats and other vessels operating in Michigan waters based on boat type and length. The fee was enacted in 1967. The Marine Safety Fund receives 49 percent of the revenue, the Waterways Fund receives 17.5 percent, and the Harbor Development Fund receives the remaining 33.5 percent. Registrations are valid for three years.

FY 2003 Estimate

Publicly-Owned Watercraft

\$13,000

Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.

CHAPTER 8

PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 5.5 percent from \$8,583.0 million in FY 2002 to \$9,051.5 million in FY 2003. Estimates were based on FY 2000 and FY 2001 data.

Estimate Reliability	(1) Railroad Right-of-Way
	(3) Tax-Exempt Property
	(1-2) Homestead Exemption for Farm and Homestead Property
	Other Local Taxes
	Technology Parks

Tax expenditure estimates attributable to tax-exempt property are not reliable due to the inherent difficulty of estimating values of tax-exempt properties within each of Michigan's 83 counties. County equalization directors provide these estimates based on their own estimates or surveys of local units. Estimates are somewhat arbitrary because equalization directors use different methods to derive estimates. In many cases, equalization directors did not provide estimates, and estimates from previous years were used. These latter cases are noted in the exhibits.

Other local tax expenditures include accommodations, city income, and city utility users' tax. For most of these categories, data were not available to estimate the statewide value of tax expenditures associated with these taxes. The two exceptions are the Nonresident Reduced Rate and Personal Exemption tax expenditures associated with the city income tax. These estimates were based on a survey of city treasurers and are relatively stable from year to year.

Property and Other Local Tax Expenditure Changes

Public Act 217 of 2001 eliminated the 2002 sunset of the Neighborhood Enterprise Zone Act and increased the number of communities that may establish Neighborhood Enterprise Zones.

Utility Property Tax Expenditures

The State of Michigan levies a utility property tax on certain public utilities doing business in Michigan. The tax base is equal to 50 percent of the true cash value of all property owned by railroad, railroad car, and telephone and telegraph companies. Enacted in 1905, the utility property tax rate equals the average statewide general property tax rate in the preceding year on commercial and industrial property. Revenue is deposited into the General Fund, and FY 2003 collections are projected to total \$155.0 million.

FY 2003 Estimate

Railroad Right-of-Way

\$15,100,000

Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan. Credits totaled \$16.6 million for FY 2001.

General Property Tax

Enacted in 1893, Michigan's general property tax is the main source of revenue for local governments. The property tax is levied on a base of taxable value. Taxable value cannot increase in any one year by more than 5 percent or the rate of inflation, whichever is less (excluding transfers, new construction, and additions). Rates may vary by local unit, though each local unit's rate is subject to the State Constitution (Article IX, Sec. 6) and various statutes. The following table lists average statewide millage rates since 1990.

Average Statewide Millage Rates

<u>Calendar Year</u>	<u>Homestead Property</u>	<u>Nonhomestead Property</u>	<u>All Property</u>
1990	n.a.	n.a.	57.17
1991	n.a.	n.a.	57.34
1992	n.a.	n.a.	58.09
1993	n.a.	n.a.	56.64
1994	30.22	48.17	38.19
1995	31.00	48.79	38.88
1996	31.36	49.54	39.32
1997	31.36	49.63	39.25
1998	31.43	49.68	39.27
1999	31.40	49.76	39.16
2000	31.54	50.10	39.32

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Nonhomestead millage rates from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

FY 2003 Estimate

Air and Water Pollution Control

Exempts air and water pollution control equipment from the property tax after approval and certification by the State Tax Commission.

\$120,000,000

FY 2003 Estimate**Cultural Organizations**

n.a.

Exempts from the property tax real property owned and occupied by a nonprofit organization meeting specific requirements. Some of the requirements are that the organization must be: incorporated under state law; devoted exclusively to the development of literature, music, painting or sculpture; and available to the general public on a regular basis. The cost of this provision has not been estimated due to lack of data.

Energy Conservation Devices

\$650,000

Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.

Enterprise Zone

\$1,100,000

Exempts property owned by a qualified business in an Enterprise Zone established before 1994 (Benton Harbor) from ad valorem property tax and subjects it to a specific tax for a 10-year period. The Benton Harbor Enterprise Zone program ceased enlisting new businesses into the abatement program after December 31, 1996. Property located in a federally-designated zone is eligible for a five-year, 50 percent tax abatement on any increase in value, if authorized by the local government.

Fairground Property

n.a.

Exempts property owned by an agricultural society and used primarily for fair purposes.

Homestead Exemption

\$2,500,000,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills. For most school districts 18 mills are assessed locally for school operations.

Homestead Exemption for Farm Property

\$130,000,000

Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.

Industrial Facilities Development

\$330,000,000

Allows local governments to grant property tax exemptions for up to 12 years to encourage the establishment of new industrial facilities and the creation, restoration, or replacement of obsolete facilities. In lieu of property tax, an industrial facilities tax is levied on industrial property (building, machinery and equipment, but not land).

FY 2003 Estimate

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 20 displays a partial estimate of the revenue foregone by local units due to industrial facilities development.

Neighborhood Enterprise Zones

\$3,100,000

Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, eight cities participate in this program.

Poverty Exemption

\$2,300,000

Provides an exemption for impoverished individuals who in the judgement of the township supervisor and board of review are unable to contribute towards the provision of public services.

Renaissance Zones

\$21,900,000

Exempts individuals who are residents of a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

Tax Exempt Property

\$3,028,000,000

Exhibit 20 (see page 73) reports the results from the 2001 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 19 (see page 72) contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was over \$58.1 billion. If taxed at the 2000 average nonhomestead statewide rate of 50.10 mills, tax-exempt property would have yielded \$3.0 billion in property tax revenue.

FY 2003 Estimate

Note: Tax-exempt property for Ingham and Wayne counties is not included in estimates. Both counties contain *substantial* tax-exempt property used for public education, state and federal government, municipal and personal purposes. Estimates for the various classifications of tax-exempt property are presented below.

Tax Exempt Acreage	n.a.
Exhibit 21 (see page 77) shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 329,203 acres in 2001.	
Tax Exempt County and Municipal Property	\$329,000,000
Exempts real property owned by counties, townships, cities, villages, and school districts.	
Tax Exempt Federal Property	\$256,000,000
Exempts real property belonging to the United States government.	
Tax Exempt Other Real Tax Exempt Property	\$233,000,000
Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	
Tax Exempt Personal Property	\$823,000,000
Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.	
Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	
Tax Exempt Public Education Property	\$1,202,000,000
Exempts real property owned, leased, loaned or otherwise made available to school districts if the property is used primarily for public school purposes.	

FY 2003 Estimate

Tax Exempt Specifically-Taxed Property

n.a.

Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.

Tax Exempt State Property

\$185,000,000

Exempts real property owned by the State of Michigan.

Tax Increment Financing

\$270,000,000

Allows municipalities to create tax increment finance plans under the Downtown Development Authority Act, P.A. 197 of 1975; the Tax Increment Finance Authority Act, P.A. 450 of 1980; the Local Development Finance Authority Act, P.A. 281 of 1986; and the Brownfield Redevelopment Act, P.A. 381 of 1996. Each Authority may capture millage from the general property tax and industrial and commercial facilities taxes. The captured revenue, which would normally accrue to the city, county, and school district, is diverted to finance commercial and industrial costs.

Estimates of the cost of tax increment financing assume that local units would have invested in projects without assistance from tax increment finance plans. To the extent these investments would not have occurred without funding through the tax increment finance plan, the tax expenditure estimates are overstated.

Taxable Value Cap

\$2,380,000,000

Limits the rate of increase in property tax assessments to 5 percent or the rate of inflation, whichever is less. Taxable value becomes 50 percent of true cash value when ownership is transferred.

Technology Park

\$40,000

Exempts qualified "high technology" properties from the property tax. In lieu of the property tax, a specific tax equal to half the ad valorem millage rate is levied for up to 12 years. The program sunset on December 31, 1993, and exemptions granted before then remain in effect for up to 12 years.

Veterans' Organizations

n.a.

Exempts veterans' organizations' real and personal property they own and occupy. Previously, exemptions were limited to those buildings used as residences. Some revenue will be lost through the exemption, but only a few headquarters are currently on the tax rolls.

Exhibit 19 Counties of Michigan



Exhibit 20
Estimated Taxable Value of Exempt Real and Personal Property, by County, 2001
(Taxable Value in Thousands)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
ALCONA *	\$0	\$21,265	\$1,673	\$2,124	\$6,908
ALGER*	113	95,500	97,000	3,500	7,000
ALLEGAN *	209,346	1,026	35,900	77,000	256,500
ALPENA	37,715	7,104	54,016	80,979	53,463
ANTRIM *	45	3,150	24,000	9,576	15,600
ARENAC *	1,064	52	6,735	522	353
BARAGA	0	15,000	30,000	16,000	18,000
BARRY *	7,707	0	6,389	20,684	48,976
BAY	144,402	14,676	13,073	178,423	199,360
BENZIE	0	34,926	90,670	21,800	13,164
BERRIEN	97,488	48,949	89,856	478,734	533,490
BRANCH	55,737	0	854	10,450	4,500
CALHOUN *	330,553	35,000	4,200	68,500	100,000
CASS	26,937	0	46,075	116,775	116,813
CHARLEVOIX	14,073	1,048	23,615	26,141	47,776
CHEBOYGAN	91	1,970	4,100	33,500	18,620
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE	3,292	772	20,823	2,867	30,892
CLINTON*	8,200	50	3,200	15,000	25,000
CRAWFORD	2,775	28,545	230,000	6,233	21,150
DELTA	23,004	47,512	11,505	10,222	15,709
DICKINSON	72,332	7,600	8,900	7,600	27,000
EATON	60,130	425	155,736	118,805	117,163
EMMET	4,320	77	8,337	105	289
GENESEE	150,865	13,719	45,872	392,550	457,762
GLADWIN *	1,335	50,000	20,076	10,000	30,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	7,909	2,750	15,000	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	68,000	266	643	20,500	71,000
HOUGHTON	4,821	12,514	80,152	7,888	94,645
HURON *	56,045	238	10,408	15,000	25,400
INGHAM *	87,528	n.a.	n.a.	n.a.	n.a.
IONIA	36,828	0	136,725	13,203	16,678
IOSCO	1,793	13,144	6,068	5,530	11,836
IRON	228	20,500	12,350	6,200	510
ISABELLA *	15,871	2,386	33,050	21,412	368,141
JACKSON	165,835	2,000	195,000	37,000	95,000
KALAMAZOO	195,399	28,771	292,497	617,805	1,199,236
KALKASKA	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW	0	55,491	5,460	7,515	910

Exhibit 20 (Continued)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
LAKE	\$237	\$52,104	\$26,511	\$6,035	\$9,124
LAPEER	80,500	3,030	15,550	130,420	91,160
LEELANAU	0	846	15	261	22
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	68,321	126	2,879	16,228	7,025
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	2,569,243	1,097,958	56,351	1,311,664	13,500,973
MANISTEE	18,756	15,781	30,607	25,700	17,725
MARQUETTE	14,988	59,000	40,100	18,750	185,000
MASON	60,136	94,268	20,955	69,540	137,311
MECOSTA *	26,678	884,000	74,100	58,500	520,800
MENOMINEE	24,933	78	68,626	24,900	25,595
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	4,816	58	16,000	3,000	15,000
MONROE	233,461	118	9,015	67,966	149,703
MONTCALM	8,491	n.a.	5,572	n.a.	n.a.
MONTMORENCY*	414	60	30,000	10,000	11,000
MUSKEGON	213,058	14,416	71,933	121,074	218,954
NEWAYGO *	10,670	25,191	1,078	25,677	44,867
OAKLAND *	828,118	216,940	66,562	781,432	944,339
OCEANA	7,218	16,500	6,100	2,200	15,000
OGEMAW	533	6,230	12,830	8,171	6,256
ONTONAGON	2,936	116,645	14,778	2,364	9,473
OSCEOLA	38,324	0	3,455	4,111	17,164
OSCODA	96	115,691	113,968	2,525	5,694
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	558,364	13,488	27,935	113,464	784,235
PRESQUE ISLE	41,100	n.a.	n.a.	n.a.	n.a.
ROSCOMMON	2,642	70	159,313	3,786	22,898
SAGINAW	267,816	21,630	128,750	180,250	566,500
SAINT CLAIR	50,447	2,419	36,515	116,126	95,914
SAINT JOSEPH *	126,315	0	7,759	14,389	38,754
SANILAC *	8,922	109	4,610	6,064	48,510
SCHOOLCRAFT	3,680	209,328	271,775	27,642	28,365
SHIAWASSEE	17,541	643	17,300	63,500	87,800
TUSCOLA *	9,805	257	6,785	64,456	54,278
VAN BUREN *	71,656	1,123	17,964	11,228	13,473
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD *	<u>15,470</u>	<u>45,514</u>	<u>34,960</u>	<u>1,790</u>	<u>14,840</u>
TOTAL	\$8,365,494	\$4,906,285	\$3,551,502	\$6,308,506	\$23,053,106

Note: Wayne and Ingham Counties are not in totals. 1999 taxable value for Wayne County was \$35.4 billion.

* Based on surveys from current and prior years as counties did not provide estimates.

** Numbers are for a subset of the local units in the county.

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA *	\$195	\$3,333	\$35,498	\$530,336	6.3 %
ALGER*	14,000	40,000	257,000	213,993	54.6 %
ALLEGAN *	500,000	102,600	973,026	2,822,508	25.6 %
ALPENA	136,901	0	332,463	674,893	33.0 %
ANTRIM *	62,040	215,625	329,991	1,129,264	22.6 %
ARENAC *	0	0	7,662	393,997	1.9 %
BARAGA	40,000	100,000	219,000	145,323	60.1 %
BARRY *	63,780	34,396	174,225	1,246,875	12.3 %
BAY	772,417	0	1,177,949	2,323,922	33.6 %
BENZIE	0	17,001	177,561	639,478	21.7 %
BERRIEN	325,747	0	1,476,776	4,414,502	25.1 %
BRANCH	0	6,500	22,304	904,691	2.4 %
CALHOUN *	725,000	28,000	960,700	2,810,966	25.5 %
CASS	253,629	0	533,292	1,157,844	31.5 %
CHARLEVOIX	1,058	2,730	102,368	1,267,372	7.5 %
CHEBOYGAN	0	0	58,190	884,244	6.2 %
CHIPPEWA *	21,200	3,500	1,374,928	690,011	66.6 %
CLARE	28,567	0	83,921	678,229	11.0 %
CLINTON*	17,000	0	60,250	1,495,246	3.9 %
CRAWFORD	89,135	20,000	395,063	409,728	49.1 %
DELTA	5,191	0	90,139	813,878	10.0 %
DICKINSON	1,950	8,100	61,150	654,542	8.5 %
EATON	150,443	259,344	801,916	2,416,754	24.9 %
EMMET	0	0	8,808	1,847,701	0.5 %
GENESEE	374,389	0	1,284,292	8,593,092	13.0 %
GLADWIN *	30,000	20,000	160,076	622,256	20.5 %
GOGEBIC *	330	302	44,759	314,836	12.4 %
GRAND TRAVERSE *	118,200	51,400	339,150	2,660,298	11.3 %
GRATIOT *	135,000	10,000	349,600	658,308	34.7 %
HILLSDALE	62,300	42,400	197,109	952,405	17.1 %
HOUGHTON	2,176	9,455	206,830	458,599	31.1 %
HURON *	110,000	12,000	173,046	1,178,096	12.8 %
INGHAM *	n.a.	n.a.	n.a.	5,826,422	n.a. %
IONIA	3,466	50	170,122	1,004,056	14.5 %
IOSCO	5,691	2,213	44,482	809,367	5.2 %
IRON	1,500	620	41,680	289,926	12.6 %
ISABELLA *	50,976	4,317	480,282	1,002,599	32.4 %
JACKSON	200,000	5,000	534,000	3,022,214	15.0 %
KALAMAZOO	10,664	75,202	2,224,175	5,746,338	27.9 %
KALKASKA	100,000	55,000	451,000	512,401	46.8 %
KENT *	1,840,872	158,010	2,706,893	15,395,202	15.0 %
KEWEENAW	776	23,884	94,036	72,264	56.5 %

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
LAKE	\$6,900	\$5,100	\$105,774	\$326,552	24.5 %
LAPEER	170,510	0	410,670	2,179,025	15.9 %
LEELANAU	0	161	1,305	1,367,942	0.1 %
LENAWEE *	0	21,000	362,400	2,337,657	13.4 %
LIVINGSTON **	61	5,698	32,017	5,603,145	0.6 %
LUCE *	650	1,749	17,321	121,117	12.5 %
MACKINAC *	7,817	2,164	131,295	609,249	17.7 %
MACOMB	1,011,194	516,144	17,494,284	22,702,329	43.5 %
MANISTEE	30,993	0	120,806	685,000	15.0 %
MARQUETTE	0	230,000	532,850	1,213,841	30.5 %
MASON	27,275	41,344	390,693	1,002,928	28.0 %
MECOSTA *	15,400	13,440	1,566,240	813,956	65.8 %
MENOMINEE	45,072	7,560	171,831	416,904	29.2 %
MIDLAND *	154,540	110,240	439,605	3,077,119	12.5 %
MISSAUKEE	1,500	18,000	53,558	353,206	13.2 %
MONROE	0	7,320	234,122	4,709,442	4.7 %
MONTCALM	n.a.	n.a.	5,572	1,132,467	n.a.
MONTMORENCY*	5,000	150	56,210	348,231	13.9 %
MUSKEGON	474,383	0	900,760	3,244,251	21.7 %
NEWAYGO *	113,876	11,835	222,524	915,382	19.6 %
OAKLAND *	3,533,787	1,047,668	6,590,728	47,656,730	12.1 %
OCEANA	4,100	0	43,900	655,012	6.3 %
OGEMAW	n.a.	2,844	36,331	548,476	6.2 %
ONTONAGON	25,607	105,338	274,205	159,815	63.2 %
OSCEOLA	138,573	4,885	168,188	479,381	26.0 %
OSCODA	1,689	5,771	245,338	254,004	49.1 %
OTSEGO *	45,800	3,665	160,066	917,895	14.8 %
OTTAWA	2,468,987	713,720	4,121,829	6,677,257	38.2 %
PRESQUE ISLE	n.a.	n.a.	n.a.	430,663	n.a.
ROSCOMMON	4,804	6,519	197,390	896,211	18.0 %
SAGINAW	965,000	216,000	2,078,130	4,153,726	33.3 %
SAINT CLAIR	79,354	258	330,586	4,816,286	6.4 %
SAINT JOSEPH *	4,185	4,695	69,782	1,304,870	5.1 %
SANILAC *	66,701	7,277	133,271	1,032,231	11.4 %
SCHOOLCRAFT	17,500	17,000	571,610	215,846	72.6 %
SHIAWASSEE	5,250	0	174,493	1,283,930	12.0 %
TUSCOLA *	22,616	20,560	168,952	1,049,360	13.9 %
VAN BUREN *	50,657	11,228	105,673	1,715,669	5.8 %
WASHTENAW *	774	647	12,384	10,449,795	0.1 %
WEXFORD *	<u>33,864</u>	<u>3,500</u>	<u>134,468</u>	<u>39,686,041</u>	0.3 %
TOTAL	\$15,789,012	\$4,474,462	\$58,082,873	\$251,401,495	18.8 %

Note: Wayne and Ingham Counties are not in totals. 1999 taxable value for Wayne County was \$35.4 billion.

* Based on surveys from current and prior years as counties did not provide estimates.

** Numbers are for a subset of the local units in the county.

Exhibit 21
General Property Tax – Estimated Exempt Acreage by County, 2001

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA *	382	LAKE	320
ALGER *	14,000	LAPEER	4,600
ALLEGAN *	1,000	LEELANAU	1,998
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,548
ARENAC *	807	LUCE *	2,300
BARAGA	7,000	MACKINAC *	240
BARRY *	2,168	MACOMB	6,375
BAW	3,500	MANISTEE	2,000
BENZIE	1,547	MARQUETTE	390
BERRIEN *	6,678	MASON	600
BRANCH	425	MECOSTA *	2,500
CALHOUN *	5,670	MENOMINEE	1,090
CASS	60	MIDLAND *	2,000
CHARLEVOIX	330	MISSAUKEE	1,500
CHEBOYGAN	7,800	MONROE	3,200
CHIPPEWA *	1,500	MONTCALM	n.a.
CLARE	146	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,000
CRAWFORD	1,619	NEWAYGO *	6,800
DELTA	700	OAKLAND *	12,871
DICKINSON	400	OCEANA	500
EATON	800	OGEMAW	693
EMMET	1,100	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN *	1,000	OSCODA	529
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE *	10,500	OTTAWA	2,260
GRATIOT *	300	PRESQUE ISLE	85,136
HILLSDALE	1,975	ROSCOMMON	1,318
HOUGHTON	2,208	SAGINAW	4,030
HURON	341	SAINT CLAIR	12,162
INGHAM *	1,200	SAINT JOSEPH	2,600
IONIA	544	SANILAC *	2,850
IOSCO	344	SCHOOLCRAFT	350
IRON	580	SHIAWASSEE	300
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	630
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA	340	WEXFORD *	500
KENT *	3,200		
KEWEENAW	3,462	TOTAL	329,203

* Based on a previous year's survey.

** Numbers are for a subset of the local units in the county.

Notes: Many estimates are rounded to the nearest hundred. Wayne County is not included.

FY 2003 Estimate**Water Softeners and Water Coolers**

\$1,050,000

Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax.

Iron Ore Specific Tax

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$5.6 million in FY 2001, \$1.5 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund.

Mobile Home Tax

Enacted in 1959, the mobile home tax is levied on mobile homes in lieu of property tax. The tax rate is \$3 per month per occupied mobile home located in licensed mobile home parks. Township or city treasurers administer the mobile home tax. Counties and municipalities keep 50 cents each, while the remaining \$2 is remitted to the state and deposited into the School Aid Fund. The 2000 state share of this tax totaled \$3.0 million indicating \$4.5 million in total state and local collections. (See Exhibit 22, on page 80, only county share shown.)

FY 2003 Estimate**Mobile Home Tax Expenditure**

\$43,200,000

The tax burden on mobile home occupants (\$36 per year) is small compared with the tax burden on homeowners. The reported figure is an estimate of the difference between the amount of property taxes that would be paid on mobile homes if they were not exempt and the amount collected from the mobile home tax.

Out-of-State Coaches

n.a.

Exempts out-of-state coaches when accompanied by an out-of-state auto for an accumulated period of up to 90 days during any 12-month period if the occupants are tourists and not engaged in business in Michigan.

Real Estate Property Transfer Tax

Enacted in 1966, the county real estate property transfer tax is a tax on the transfer of an interest in real property. The tax is levied at a rate of 55 cents per \$500 (0.11 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the treasurer of the county in which the transfer takes place, and the revenue goes to the county general fund. The estimated statewide revenue yield was approximately \$37.1 million in 2001. (See Exhibit 22.)

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$264 million in FY 2003.

Although several exemptions from the state and county transfer tax are permitted, they are designed to define which real estate transfers are subject to the tax. The Act does not define real estate transfers explicitly, but by exclusion. Exempt transfers include transfers involving federal, state and local units of governments, certain conveyances between spouses, instruments used to straighten boundary lines when no money is paid, and land contracts in which the title passes to the grantee only when the contract has been paid. Public Act 203 of 2000 added churches and church property to the list of exempt transfers. Transfers of less than \$100 are also exempt. There are no estimates regarding these tax expenditures due to lack of data.

Accommodations Tax

Under Public Act 263 of 1974, owners of businesses providing rooms to transient guests are subject to the accommodations tax which is collected by the county treasurer. Housing and nursing homes are excluded from the tax. Only counties with a population of less than 600,000 that have a city with a population of at least 40,000 may levy the tax. Counties currently imposing the tax include: Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw. The tax is levied on the amount transient guests pay for lodging. The maximum rate is 5 percent and is determined by the county. Revenues (less administrative costs) are dedicated to convention facilities and the promotion of conventions and tourism. The tax yielded approximately \$12.5 million in 2000. (See Exhibit 22.)

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2000, city income taxes totaled \$551.3 million. (See Exhibit 24.) Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

FY 2003 Estimate

Federal Deductions

n.a.

Tax expenditures for city income taxes are similar to those for state and federal income taxes. However, most city income taxes are based on gross income from salaries, bonuses, wages, commissions, interest, and dividends rather than on federal AGI.

Exhibit 22
Miscellaneous Local Taxes Kept by Local Units, 2000

County	Accommodations	Mobile Home (County Share)	Real Estate Property Transfer
ALCONA	\$0	\$84	\$58,420
ALGER	0	191	28,944
ALLEGAN	0	17,000	379,589
ALPENA	0	1,369	77,800
ANTRIM	0	522	169,802
ARENAC	0	381	38,541
BARAGA	0	288	31,527
BARRY	0	5,834	160,922
BAY	0	14,506	182,938
BENZIE	0	768	88,243
BERRIEN	0	19,266	553,299
BRANCH	0	3,728	105,888
CALHOUN	57,868	14,876	324,015
CASS	0	5,341	123,753
CHARLEVOIX	0	3,475	1,364,584
CHEBOYGAN	0	1,303	128,637
CHIPPEWA	0	2,970	90,063
CLARE	0	834	84,485
CLINTON	0	11,236	251,786
CRAWFORD	0	704	45,366
DELTA	0	3,106	72,567
DICKINSON	0	2,447	51,247
EATON	0	11,112	371,499
EMMET	0	1,895	359,156
GENESEE	1,385,778	80,301	1,298,546
GLADWIN	0	1,174	94,629
GOGEBIC	0	180	37,905
GRAND TRAVERSE	0	12,290	472,072
GRATIOT	0	4,447	67,204
HILLSDALE	0	1,929	117,583
HOUGHTON	0	1,014	51,962
HURON	0	2,531	91,690
INGHAM	2,021,446	17,216	878,140
IONIA	0	5,890	118,475
IOSCO	0	699	111,477
IRON	0	89	33,027
ISABELLA	0	6,132	136,178
JACKSON	0	18,891	415,124
KALAMAZOO	1,290,103	26,232	741,519
KALKASKA	0	242	342,765
KENT	4,181,189	58,005	2,382,527
KEWEENAW	0	0	9,687

Exhibit 22 (Continued)

County	Accommodations	Mobile Home (County Share)	Real Estate Property Transfer
LAKE	\$0	\$0	\$37,605
LAPEER	0	9,411	349,383
LEELANAU	0	593	196,650
LENAWEE	0	11,809	314,276
LIVINGSTON	0	14,951	1,046,000
LUCE	0	84	17,293
MACKINAC	0	0	68,952
MACOMB	0	84,321	4,455,655
MANISTEE	0	521	92,994
MARQUETTE	0	4,100	171,610
MASON	0	2,623	91,004
MECOSTA	0	2,633	102,737
MENOMINEE	0	1,064	41,042
MIDLAND	0	5,363	290,456
MISSAUKEE	0	49	39,026
MONROE	0	34,689	459,362
MONTCALM	0	2,477	147,563
MONTMORENCY	0	86	34,640
MUSKEGON	769,320	22,110	537,752
NEWAYGO	0	3,922	120,182
OAKLAND	0	104,056	8,849,607
OCEANA	0	1,740	76,244
OGEMAW	0	363	65,992
ONTONAGON	0	89	26,206
OSCEOLA	0	257	44,948
OSCODA	0	0	34,091
OTSEGO	0	1,790	123,754
OTTAWA	0	35,242	978,741
PRESQUE ISLE	0	329	59,912
ROSCOMMON	0	834	128,467
SAGINAW	1,518,054	16,423	415,895
SAINT CLAIR	0	32,100	548,480
SAINT JOSEPH	0	6,626	163,306
SANILAC	0	8,335	113,658
SCHOOLCRAFT	0	66	29,504
SHIAWASSEE	0	12,158	150,529
TUSCOLA	0	4,709	108,880
VAN BUREN	0	10,337	217,871
WASHTENAW	1,311,839	146,249	1,892,454
WAYNE	0	77,123	5,897,621
WEXFORD	0	3,554	89,756
TOTAL	\$12,535,597	\$1,023,672	\$41,173,680

FY 2003 Estimate

Net Profits of Financial Institutions

n.a.

Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.

Nonresident Reduced Rate

\$178,300,000

Nonresidents' income is taxed at half the rate paid by residents.

Pensions, Annuities, and Retirement Plans

n.a.

Exempts proceeds of pensions, annuities, and retirement plans from the city income tax. Although no statewide estimate is available, this tax expenditure is likely to be substantial.

Personal Exemption

\$25,100,000

Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 24. While most cities record the number of personal exemptions provided, some do not. In these cases, personal exemptions are estimated based on the number of tax returns multiplied by a weighted average number of exemptions.

Supplemental Unemployment Benefits

n.a.

Exempts supplemental unemployment benefits from the city income tax. A statewide estimate is not available.

City Utility Users' Tax

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of one million or more. Currently, Detroit is the only Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$52.8 million in FY 2000.

Exhibit 23
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2000

City	Resident		Nonresident and Partial-Year Resident	
	Quantity	Amount	Quantity	Amount
Albion	5,045	\$30,270	4,864	\$14,592
Battle Creek	38,182	572,730	46,286	347,145
Big Rapids	3,355	20,130	11,349	34,047
Detroit	552,520	11,810,115	383,953	4,103,498
Flint	67,524	405,144	113,262	339,786
Grand Rapids	157,696	1,537,536	174,484	850,610
Grayling	1,090	16,350	4,883	36,623
Hamtramck	14,600	87,600	7,466	22,398
Highland Park*	12,000	144,000	18,000	108,000
Hudson	2,500	25,000	4,000	20,000
Ionia	4,829	33,803	15,066	52,731
Jackson	24,009	144,054	35,457	106,371
Lansing	82,392	494,352	113,203	339,609
Lapeer	6,977	41,862	19,605	58,815
Muskegon	18,472	110,832	38,587	115,761
Muskegon Heights	2,635	15,810	7,977	23,931
Pontiac	36,898	221,388	117,373	352,119
Port Huron	26,301	157,806	29,100	87,300
Portland	4,038	40,380	2,839	14,195
Saginaw	38,214	573,210	59,773	448,298
Springfield	3,090	46,350	4,642	34,815
Walker	18,369	137,768	40,856	153,210
TOTAL	1,120,736	\$16,666,490	1,253,025	\$7,663,852

* Based on a previous year's survey.

Exhibit 24
City Tax Rates and Exemption Allowances, 2000

<u>City</u>	<u>City Income Tax Rate</u>			<u>Personal Exemption</u>	<u>Collections (000s)</u>
	<u>Resident</u>	<u>Non- resident</u>	<u>Corporation</u>		
Albion	1.00 %	0.50 %	1.00 %	\$600	\$1,411
Battle Creek	1.00 %	0.50 %	1.00 %	1,500	13,175
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,586
Detroit	2.85 %	1.425 %	1.80 %	750	349,419
Flint	1.00 %	0.50 %	1.00 %	600	22,579
Grand Rapids	1.30 %	0.65 %	1.30 %	750	63,408
Grayling	1.00 %	0.50 %	1.00 %	1,500	337
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,682
Highland Park	2.00 %	1.00 %	2.00 %	600	2,773
Hudson	1.00 %	0.50 %	1.00 %	1,000	387
Ionia	1.00 %	0.50 %	1.00 %	700	1,596
Jackson	1.00 %	0.50 %	1.00 %	600	7,059
Lansing	1.00 %	0.50 %	1.00 %	600	26,620
Lapeer	1.00 %	0.50 %	1.00 %	600	2,065
Muskegon	1.00 %	0.50 %	1.00 %	600	7,038
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	1,075
Pontiac	1.00 %	0.50 %	1.00 %	600	17,858
Port Huron	1.00 %	0.50 %	1.00 %	600	6,765
Portland	1.00 %	0.50 %	1.00 %	1,000	542
Saginaw	1.50 %	0.75 %	1.50 %	1,000	15,318
Springfield	1.00 %	0.50 %	1.00 %	1,500	663
Walker	1.00 %	0.50 %	1.00 %	750	6,978
TOTAL					\$551,334